

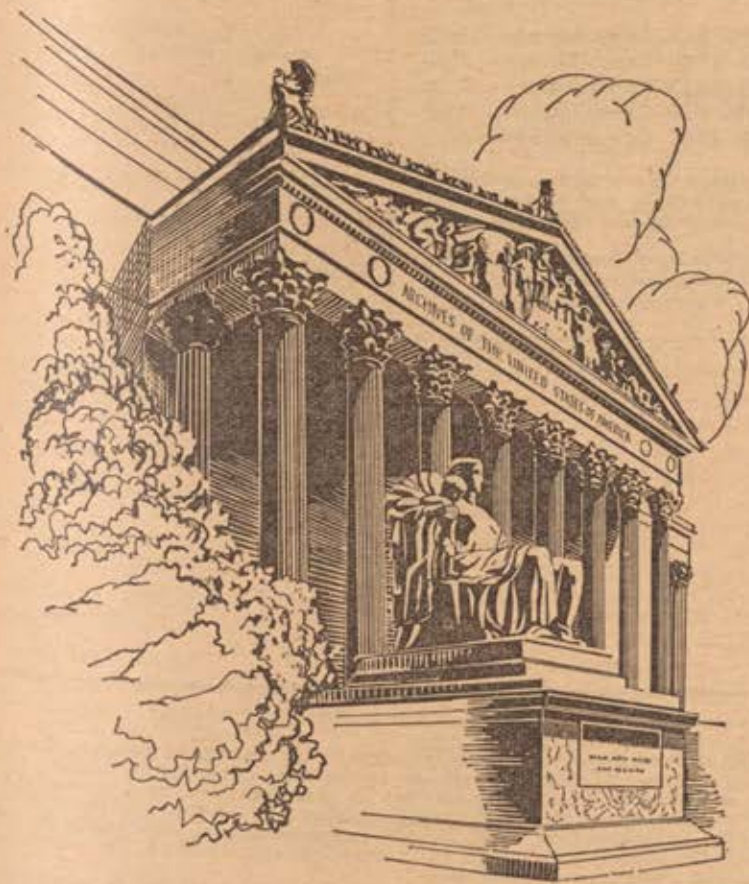
# FEDERAL REGISTER

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PART I



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Presidential Documents

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## Title 26—INTERNAL REVENUE

### Chapter I—Internal Revenue Service, Department of the Treasury

#### SUBCHAPTER A—INCOME TAX

[T.D. 6804]

### PART 1—INCOME TAX; TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1953

#### Treatment of Carrying Charges With Respect to the Installment Method of Accounting

On December 22, 1964, notice of proposed rule making regarding the Income Tax Regulations (26 CFR Part 1) under section 453 of the Internal Revenue Code of 1954 to reflect the amendment made to section 453 of the Internal Revenue Code of 1954 by section 3 of the Act of August 31, 1964 (Public Law 88-539, 78 Stat. 746), was published in the FEDERAL REGISTER (29 F.R. 18173). After consideration of all such relevant matter as was presented by interested parties regarding the rules proposed, the amendments to the regulations as so proposed are hereby adopted, subject to the change set forth below:

Section 1.453-2 as set forth in the notice of proposed rule making is amended by revising subparagraph (2) (i) of paragraph (c).

[SEAL] SHELDON S. COHEN,  
Commissioner of Internal Revenue.

Approved: February 27, 1965.

STANLEY S. SURREY,  
Assistant Secretary of the  
Treasury.

In order to conform the Income Tax Regulations (26 CFR Part 1) under section 453 of the Internal Revenue Code of 1954 to section 3 of the Act of August 31, 1964 (Public Law 88-539, 78 Stat. 746), and to make certain other changes, such regulations are amended as follows:

PARAGRAPH 1. Section 1.453 is amended by adding a new subsection (e) to section 453, by revising subsections (a) and (d) (4) of section 453, by adding a new paragraph (5) to section 453(d) and by revising the historical note. Such added and amended provisions read as follows:

#### § 1.453 Statutory provisions; installment method.

Sec. 453. *Installment method*—(a) *Dealers in personal property*—(1) *In general*. Under regulations prescribed by the Secretary or his delegate, a person who regularly sells or otherwise disposes of personal property on the installment plan may return as income therefrom in any taxable year that proportion of the installment payments actually received in that year which the gross profit, realized or to be realized when payment is completed, bears to the total contract price.

(2) *Total contract price*. For purposes of paragraph (1), the total contract price of

all sales of personal property on the installment plan includes the amount of carrying charges or interest which is determined with respect to such sales and is added on the books of account of the seller to the established cash selling price of such property. This paragraph shall not apply with respect to sales of personal property under a revolving credit type plan or with respect to sales or other dispositions of property the income from which is, under subsection (b), returned on the basis and in the manner prescribed in paragraph (1).

(d) *Gain or loss on disposition of installment obligations*. . . .

(4) *Effect of distribution in certain liquidations*—(A) *Liquidations to which section 332 applies*. If—

(i) An installment obligation is distributed by one corporation to another corporation in the course of a liquidation, and

(ii) Under section 332 (relating to complete liquidations of subsidiaries) no gain or loss with respect to the receipt of such obligation is recognized in the case of the recipient corporation.

Then no gain or loss with respect to the distribution of such obligation shall be recognized in the case of the distributing corporation. If the basis of the property of the liquidating corporation in the hands of the distributee is determined under section 334 (b) (2) then the preceding sentence shall not apply to the extent that under paragraph (1) gain to the distributing corporation would be considered as gain to which section 341(f) or section 1245(a) or 1250(a) applies.

(B) *Liquidations to which section 337 applies*. If—

(i) An installment obligation is distributed by a corporation in the course of a liquidation, and

(ii) Under section 337 (relating to gain or loss on sales or exchanges in connection with certain liquidations) no gain or loss would have been recognized to the corporation if the corporation had sold or exchanged such installment obligation on the day of such distribution.

Then no gain or loss shall be recognized to such corporation by reason of such distribution. The preceding sentence shall not apply to the extent that under paragraph (1) gain to the distributing corporation would be considered as gain to which section 341(f) or section 1245(a) or 1250(a) applies.

(5) *Life insurance companies*. In the case of a disposition of an installment obligation by any person other than a life insurance company (as defined in section 801 (a)) to such an insurance company or to a partnership of which such an insurance company is a partner, no provision of this subtitle providing for the nonrecognition of gain shall apply with respect to any gain resulting under paragraph (1). If a corporation which is a life insurance company for the taxable year was (for the preceding taxable year) a corporation which was not a life insurance company, such corporation shall, for purposes of this paragraph and paragraph (1), be treated as having transferred to a life insurance company, on the last day of the preceding taxable year, all installment obligations which it held on such last day. A partnership of which a life insurance company becomes a partner shall, for purposes of this paragraph and paragraph (1), be treated as having transferred to a life insurance company, on the last day of the preceding taxable year of such partnership, all

installment obligations which it holds at the time such insurance company becomes a partner.

(e) *Carrying charges not included in total contract price*. If the carrying charges or interest with respect to sales of personal property, the income from which is returned under subsection (a) (1), is not included in the total contract price, payments received with respect to such sales shall be treated as applying first against such carrying charges or interest. This subsection shall not apply with respect to sales or other dispositions of property the income from which is, under subsection (b), returned on the basis and in the manner prescribed in subsection (a) (1).

[Sec. 453 as amended by sec. 27, Technical Amendments Act 1958 (72 Stat. 1624); sec. 13(f) (5), Rev. Act 1962 (76 Stat. 1035); secs. 222(a) and 231(b) (5), Rev. Act 1964 (78 Stat. 75, 105); sec. 1(b) (2), Act of Aug. 22, 1964 (Pub. Law 88-484, 78 Stat. 507); sec. 3, Act of Aug. 31, 1964 (Pub. Law 88-539, 78 Stat. 746)]

PAR. 2. Section 1.453-2 is amended by revising paragraph (c) and (d) (2) (ii), the material preceding subdivision (i) of paragraph (d) (6), paragraph (d) (6) (v), by revising example (2) in paragraph (d) (4), and by adding example (3) to paragraph (d) (4). Such amended and added provisions read as follows:

#### § 1.453-2 Special rules applicable to dealers in personal property.

(c) *Installment income of dealers in personal property*—(1) *In general*. The income from sales on the installment plan of a dealer, that is, a person regularly engaged in the sale of personal property on the installment plan, may be ascertained by treating as income that proportion of the total payments received in the taxable year from sales on the installment plan (such payments being allocated to the year against the sales of which they apply) which the gross profit realized or to be realized on the total sales on the installment plan made during each year bears to the total contract price of all such sales made during that respective year. However, if the dealer demonstrates to the satisfaction of the district director that income from sales on the installment plan is clearly reflected, the income from such sales may be ascertained by treating as income that proportion of the total payments received in the taxable year from sales on the installment plan (such payments being allocated to the year against the sales of which they apply) which either (i) the gross profit realized or to be realized on the total credit sales made during each year bears to the total contract price of all credit sales during that respective year, or (ii) the gross profit realized or to be realized on all sales made during each year bears to the total contract price of all sales made during that respective year. See, however, paragraph (d) (6) (vi) of this section for rules permitting, under certain circumstances, all sales under a revolving credit

plan to be considered as having been made in the taxable year. A dealer who desires to compute income by the installment method shall maintain accounting records in such a manner as to enable an accurate computation to be made by such method in accordance with the provisions of this section, section 446, and § 1.446-1.

(2) *Gross profit and total contract price.* For purposes of subparagraph (1) of this paragraph, in computing the gross profit realized or to be realized on the total sales on the installment plan, there shall be included in the total selling price and, thus, in the total contract price of all such sales.

(i) The amount of carrying charges or interest which is determined at the time of each sale and is added to the established cash selling price of such property and is treated as part of the selling price for customer billing purposes, and

(ii) In the case of sales made in taxable years beginning on or after January 1, 1960, the amount of carrying charges or interest determined with respect to such sales which are added contemporaneously with the sale on the books of account of the seller but are treated as periodic service charges for customer billing purposes.

Any change in the amount of the carrying charges or interest in a year subsequent to the sale will not affect the computation of the gross profit for the year of sale but will be taken into account at the time the carrying charges or interest are adjusted. However, this subparagraph does not apply to sales of personal property under a revolving credit plan described in paragraph (d) (1) of this section, nor to sales described in section 453(b)(1) and paragraph (c) of § 1.453-1. The application of this subparagraph to carrying charges or interest described in subdivision (ii) of this subparagraph may be illustrated by the following example:

*Example.* X Corporation makes sales on the traditional installment plan. The customer's order specifies that the total price consists of a cash price plus a "time price differential" of 1½ percent per month on the outstanding balance in his account and he is billed in this manner. On its books and for purposes of reporting to stockholders, X Corporation consistently makes the following entries each month when it records its sales. A debit entry is made to accounts receivable (for the total price) and balancing credit entries are made to sales (for the established selling price) and to a reserve account for collection expense (for the amount of the time price differential). In computing

the gross profit realized or to be realized on the total sales on the installment plan, the total selling price and, thus, the total contract price for purposes of this paragraph would, with respect to sales made in taxable years beginning on or after January 1, 1960, include the time price differential.

(3) *Carrying charges not included in total contract price.* In the case of sales by dealers in personal property made during taxable years beginning after December 31, 1963, the income from which is returned on the installment method, if the carrying charges or interest with respect to such sales is not included in the total contract price, payments received with respect to such sales shall be treated as applying first against such carrying charges or interest. For application of this rule to revolving credit sales, see paragraph (d) (6) (v) of this section.

(d) *Revolving credit plans.* \* \* \*

(2) \* \* \*

(i) For taxable years ending before January 31, 1964, a taxpayer who has reported for income tax purposes all or a portion of sales under a revolving credit plan as sales on the installment method may apply the percentage obtained for the first taxable year ending on or after such date in determining the percentage of charges under a revolving credit plan for such prior taxable year (or years) which will be treated as sales on the installment plan. However, in computing the percentage to be applied in determining the percentage of charges under a revolving credit plan which will be treated as sales on the installment plan for such prior taxable year (or years), the rule stated in paragraph (c) (3) of this section shall not apply. See subparagraph (6) (v) of this paragraph for rules relating to the application of payments to finance charges for such prior taxable years.

(4) \* \* \*

*Example (2).* This example is applicable with respect to sales made during taxable years beginning before January 1, 1964. Under the terms of the taxpayer's revolving credit plan, payments are required in accordance with the following schedule:

| Unpaid balance   | Required monthly payment |
|------------------|--------------------------|
| 0 - \$99.99      | \$20                     |
| \$100 - \$199.99 | 40                       |
| \$200 - \$299.99 | 60                       |

Customer B's revolving credit ledger account for the period beginning on September 21, 1963 and ending February 20, 1964 shows the following:

| Month ending— | Aggregate sales in month <sup>1</sup> | Returns and allowances | Payments | Finance charges | Balance |
|---------------|---------------------------------------|------------------------|----------|-----------------|---------|
| Oct. 20       | \$55.00                               | 0                      | 0        | 0               | \$55.00 |
| Nov. 20       | 45.00                                 | 0                      | \$20.00  | \$0.35          | \$0.35  |
| Dec. 20       | 20.00                                 | 0                      | 20.00    | .60             | \$0.95  |
| Jan. 20       | 26.00                                 | \$5.00                 | 20.00    | .61             | \$2.56  |
| Feb. 20       | 0                                     | 10.00                  | 72.56    | 0               | 0       |

<sup>1</sup> Including sales of personal property and nonpersonal property sales.

The three \$20 payments and the \$5 return or allowance made in the billing-months ending in the taxable year are applied, under the rules in subparagraph (6) (v), to liquidate the earliest outstanding charges, first to the \$55 aggregate of sales in the billing-month ending October 20 and next to \$10 of the aggregate of sales made in the billing-month ending November 20. Thus, the balance of the account as of the close of the billing-month ending January 20, \$2.56, is made up as follows:

|                                                                  |         |
|------------------------------------------------------------------|---------|
| Remainder of sales in billing-month ending Nov. 20 (\$45 - \$10) | \$35.00 |
| Finance charge for billing-month ending Nov. 20                  | .35     |
| Sales for billing-month ending Dec. 20                           | 20.00   |
| Finance charge for billing-month ending Dec. 20                  | .60     |
| Sales for billing-month ending Jan. 20                           | 26.00   |
| Finance charge for billing-month ending Jan. 20                  | .61     |
|                                                                  | \$2.56  |

The sales of \$35 remaining from the aggregate of sales for the billing-month ending November 20 meet the requirements of subparagraph (3) (i) of this paragraph because the aggregate of sales charged during such billing-month (\$45) exceeds the required monthly payment (\$20), and such sales meet the requirements of subparagraph (3) (ii) of this paragraph because the first payment after the billing-month of sale (\$20) is an amount less than the balance of the account as of the close of such month (\$80.35). Therefore, \$35 of sales will be treated as sales on the installment plan. The \$20 aggregate of sales charged during the billing-month ending December 20 does not meet the requirements of subparagraph (3) (i) of this paragraph because it is in an amount which does not exceed the required monthly payment (\$20). (The finance charge of \$0.60 added in the billing-month does not enter into the determination of the aggregate of sales for the month because the term "sales" (as defined in subparagraph (6) (i) of this paragraph) does not include finance charges). The \$26 aggregate of sales for the billing-month ending January 20 does not meet the requirements of subparagraph (3) (i) of this paragraph because the first payment after such billing-month (\$72.56) was equal to the balance of the account as of the close of such billing-month (\$72.56). For this purpose, the balance of \$2.56 is reduced by the \$10 return or allowance which was credited after the billing-month of sale and before February 20. Thus, of the \$82.56 balance of B's account as of the close of the last billing-month ending within corporation X's taxable year, \$35 will be treated as sales on the installment plan for purposes of determining the percentage provided for in subparagraph (2) of this paragraph.

*Example (3).* This example is applicable with respect to sales made during taxable years beginning after December 31, 1963. Assume the facts in example (2), except that Customer B's revolving credit ledger account is for the period beginning on September 21, 1964 and ending February 20, 1965. Since payments received are first used to liquidate any outstanding finance charges under the rule in subparagraph (6) (v), the \$20 payment in December liquidated the \$0.35 November billing-month and the \$20 payment in January liquidated the \$0.60 finance charge accrued at the end of the December billing-month. The balance of the three

\$20 payments (\$59.05) and the \$5 return or allowance are applied (under the rules in subparagraph (6)(v)) to liquidate the earliest outstanding sales, first to the \$55 aggregate of sales in the billing-month ending October 20 and next to \$9.05 of the aggregate of sales made in the billing-month ending November 20. Thus, the balance of the account as of the close of the billing-month ending January 20, \$82.56, is made up as follows:

|                                                                  |             |
|------------------------------------------------------------------|-------------|
| Remainder of sales in billing-month ending Nov. 20 (\$45-\$9.05) | \$35.95     |
| Sales for billing-month ending Dec. 20                           | 20.00       |
| Sales for billing-month ending Jan. 20                           | 26.00       |
| Finance charge for billing-month ending Jan. 20                  | .61         |
|                                                                  | <hr/> 82.56 |

The sales of \$35.95 remaining from the aggregate of sales for the billing-month ending November 20 meet the requirements of subparagraph (3)(i) of this paragraph because the aggregate of sales charged during such billing-month (\$45) exceeds the required monthly payment (\$20), and such sales meet the requirements of subparagraph (3)(ii) of this paragraph because the first payment after the billing-month of sale (\$20) is an amount less than the balance of the account as of the close of such month (\$80.35). Therefore, \$35.95 of sales will be treated as sales on the installment plan. The \$20 aggregate of sales charged during the billing-month ending December 20 does not meet the requirements of subparagraph (3)(i) of this paragraph because it is in an amount which does not exceed the required monthly payment (\$20). The \$26 aggregate of sales for the billing-month ending January 20 does not meet the requirements of subparagraph (3)(ii) of this paragraph because the first payment after such billing-month (\$72.56) was equal to the balance of the account as of the close of such billing-month (\$72.56). For this purpose, the balance of \$82.56 is reduced by the \$10 return or allowance which was credited after the billing-month of sale and before February 20. Thus, of the \$82.56 balance of B's account as of the close of the last billing-month ending within corporation X's taxable year \$35.95 will be treated as sales on the installment plan for purposes of determining the percentage provided for in subparagraph (2) of this paragraph.

(6) For purposes of this paragraph—

(v) Except as otherwise provided in this subdivision, each payment received from a customer under a revolving credit plan before the close of the last billing-month ending in the taxable year shall be applied to liquidate the earliest outstanding charges under such plan, notwithstanding any rule of law or contract provision to the contrary. For purposes of determining which charges remain in the balance of an account at the end of the last billing-month ending in the taxable year, the taxpayer may apply returns and allowances which are credited before the close of the last billing-month ending in the taxable year either (a) to liquidate or reduce the charge for the specific item so returned or for which an allowance is permitted, or (b) to liquidate or reduce the earliest outstanding charges. The method so selected for applying returns and allowances shall be followed on a consistent

basis from year to year unless the district director consents to a change. Additionally, finance or service charges which are computed on the basis of the balance of the account at the end of the previous billing-month (usually reduced by payments during the current billing-month) are accrued at the end of the current billing-month and are therefore considered, for purposes of determining the earliest outstanding charges, as charged to the account after any sales made during the current billing-month. However, for purposes of determining which charges remain in the balance of an account at the end of the last billing-month ending in a taxable year which began after December 31, 1963, payments received during such year shall be applied first against any finance or service charges which were outstanding at the time such payment was received. The preceding sentence shall not apply with respect to a computation made for purposes of applying the rule described in subparagraph (2)(ii) of this paragraph.

(Sec. 7805 of the Internal Revenue Code of 1954; 68A Stat. 917; 26 U.S.C. 7805)

[P.R. Doc. 65-2299; Filed, Mar. 4, 1965; 8:46 a.m.]

[T.D. 6806]

## PART 1—INCOME TAX; TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1953

### Collapsible Corporations

On November 11, 1964, notice of proposed rule making with respect to the amendment of the Income Tax Regulations (26 CFR Part 1) to conform the regulations to the amendments of section 341 of the Internal Revenue Code of 1954 made by section 20 of the Technical Amendments Act of 1958 (72 Stat. 1615), section 13(f)(4) of the Revenue Act of 1962 (76 Stat. 1035), and section 231(b)(4) of the Revenue Act of 1964 (78 Stat. 105) was published in the FEDERAL REGISTER (29 F.R. 15209). After consideration of such relevant matter as was presented by interested persons regarding the rules proposed, the amendment of the regulations as proposed is hereby adopted, subject to the changes set forth below:

PARAGRAPH 1. Section 1.341-6, as set forth in the notice of proposed rule making, is changed by revising so much of paragraph (b)(2)(iii) as precedes the example, paragraph (b)(3) and (4), paragraph (e)(1)(i), and the headings of paragraphs (f) and (g).

PAR. 2. Paragraph (a) of § 1.333-1, as set forth in the notice of proposed rule making, is changed.

[SEAL] SHELDON S. COHEN,  
Commissioner of Internal Revenue.

Approved: February 27, 1965.

STANLEY S. SURREY,  
Assistant Secretary of the  
Treasury.

In order to conform the Income Tax Regulations (26 CFR Part 1) to the

amendments of section 341 of the Internal Revenue Code of 1954 made by section 20 of the Technical Amendments Act of 1958 (72 Stat. 1615), section 13(f)(4) of the Revenue Act of 1962 (76 Stat. 1035), and section 231(b)(4) of the Revenue Act of 1964 (78 Stat. 105), such regulations are amended as follows:

PARAGRAPH 1. Section 1.341 is amended by adding after section 341(d) a new subsection (e) and a historical note, as follows:

### § 1.341 Statutory provisions; collapsible corporations.

Sec. 341. Collapsible corporations. \* \* \*

(e) Exceptions to application of section—  
(1) Sales or exchanges of stock. For purposes of subsection (a)(1), a corporation shall not be considered to be a collapsible corporation with respect to any sale or exchange of stock of the corporation by a shareholder, if, at the time of such sale or exchange, the sum of—

(A) The net unrealized appreciation in subsection (e) assets of the corporation (as defined in paragraph (5)(A)), plus

(B) If the shareholder owns more than 5 percent in value of the outstanding stock of the corporation, the net unrealized appreciation in assets of the corporation (other than assets described in subparagraph (A)) which would be subsection (e) assets under clauses (i) and (iii) of paragraph (5)(A) if the shareholder owned more than 20 percent in value of such stock, plus

(C) If the shareholder owns more than 20 percent in value of the outstanding stock of the corporation and owns, or at any time during the preceding 3-year period owned, more than 20 percent in value of the outstanding stock of any other corporation more than 70 percent in value of the assets of which are, or were at any time during which such shareholder owned during such 3-year period more than 20 percent in value of the outstanding stock, assets similar or related in service or use to assets comprising more than 70 percent in value of the assets of the corporation, the net unrealized appreciation in assets of the corporation (other than assets described in subparagraph (A)) which would be subsection (e) assets under clauses (i) and (iii) of paragraph (5)(A) if the determination whether the property, in the hands of such shareholder, would be property gain from the sale or exchange of which would under any provision of this chapter be considered in whole or in part as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b), were made—

(i) By treating any sale or exchange by such shareholder of stock in such other corporation within the preceding 3-year period (but only if at the time of such sale or exchange the shareholder owned more than 20 percent in value of the outstanding stock in such other corporation) as a sale or exchange by such shareholder of his proportionate share of the assets of such other corporation, and

(ii) By treating any sale or exchange of property by such other corporation within such 3-year period (but only if at the time of such sale or exchange the shareholder owned more than 20 percent in value of the outstanding stock in such other corporation), gain or loss on which was not recognized to such other corporation under section 337(a), as a sale or exchange by such shareholder of his proportionate share of the property sold or exchanged,

does not exceed an amount equal to 15 percent of the net worth of the corporation. This paragraph shall not apply to any sale or exchange of stock to the issuing corporation or, in the case of a shareholder who owns more than 20 percent in value of the

outstanding stock of the corporation, to any sale or exchange of stock by such shareholder to any person related to him (within the meaning of paragraph (8)).

(2) *Distributions in liquidation.* For purposes of subsection (a)(2), a corporation shall not be considered to be a collapsible corporation with respect to any distribution to a shareholder pursuant to a plan of complete liquidation if, by reason of the application of paragraph (4) of this subsection, section 337(a) applies to sales or exchanges of property by the corporation within the 12-month period beginning on the date of the adoption of such plan, and if, at all times after the adoption of the plan of liquidation, the sum of—

(A) The net unrealized appreciation in subsection (e) assets of the corporation (as defined in paragraph (5)(A)), plus

(B) If the shareholder owns more than 5 percent in value of the outstanding stock of the corporation, the net unrealized appreciation in assets of the corporation described in paragraph (1)(B) (other than assets described in subparagraph (A) of this paragraph), plus

(C) If the shareholder owns more than 20 percent in value of the outstanding stock of the corporation and owns, or at any time during the preceding 3-year period owned, more than 20 percent in value of the outstanding stock of any other corporation more than 70 percent in value of the assets of which are, or were at any time during which such shareholder owned during such 3-year period more than 20 percent in value of the outstanding stock, assets similar or related in service or use to assets comprising more than 70 percent in value of the assets of the corporation, the net unrealized appreciation in assets of the corporation described in paragraph (1)(C) (other than assets described in subparagraph (A) of this paragraph),

does not exceed an amount equal to 15 percent of the net worth of the corporation.

(3) *Recognition of gain in certain liquidations.* For purposes of section 333, a corporation shall not be considered to be a collapsible corporation if at all times after the adoption of the plan of liquidation, the net unrealized appreciation in subsection (e) assets of the corporation (as defined in paragraph (5)(B)) does not exceed an amount equal to 15 percent of the net worth of the corporation.

(4) *Gain or loss on sales or exchanges in connection with certain liquidations.* For purposes of section 337, a corporation shall not be considered to be a collapsible corporation with respect to any sale or exchange by it of property within the 12-month period beginning on the date of the adoption of a plan of complete liquidation, if—

(A) At all times after the adoption of such plan, the net unrealized appreciation in subsection (e) assets of the corporation (as defined in paragraph (5)(A)) does not exceed an amount equal to 15 percent of the net worth of the corporation,

(B) Within the 12-month period beginning on the date of the adoption of such plan, the corporation sells substantially all of the properties held by it on such date, and

(C) Following the adoption of such plan, no distribution is made of any property which in the hands of the corporation or in the hands of the distributee is property in respect of which a deduction for exhaustion, wear and tear, obsolescence, amortization, or depletion is allowable.

This paragraph shall not apply with respect to any sale or exchange of property by the corporation to any shareholder who owns more than 20 percent in value of the outstanding stock of the corporation or to any person related to such shareholder (within the meaning of paragraph (8)), if such property in the hands of the corporation or in

the hands of such shareholder or related person is property in respect of which a deduction for exhaustion, wear and tear, obsolescence, amortization, or depletion is allowable.

(5) *Subsection (e) asset defined.* (A) For purposes of paragraphs (1), (2), and (4), the term "subsection (e) asset" means, with respect to property held by any corporation—

(i) Property (except property used in the trade or business, as defined in paragraph (9)) which in the hands of the corporation is, or, in the hands of a shareholder who owns more than 20 percent in value of the outstanding stock of the corporation, would be, property gain from the sale or exchange of which would under any provision of this chapter be considered in whole or in part as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b);

(ii) Property used in the trade or business (as defined in paragraph (9)), but only if the unrealized depreciation on all such property on which there is unrealized depreciation exceeds the unrealized appreciation on all such property on which there is unrealized appreciation;

(iii) If there is net unrealized appreciation on all property used in the trade or business (as defined in paragraph (9)), property used in the trade or business (as defined in paragraph (9)) which, in the hands of a shareholder who owns more than 20 percent in value of the outstanding stock of the corporation, would be property gain from the sale or exchange of which would under any provision of this chapter be considered in whole or in part as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b); and

(iv) Property (unless included under clause (i), (ii), or (iii)) which consists of a copyright, a literary, musical, or artistic composition, or similar property, or any interest in any such property, if the property was created in whole or in part by the personal efforts of any individual who owns more than 5 percent in value of the stock of the corporation.

The determination as to whether property of the corporation in the hands of the corporation is, or in the hands of a shareholder would be, property gain from the sale or exchange of which would under any provision of this chapter be considered in whole or in part as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b) shall be made as if all property of the corporation had been sold or exchanged to one person in one transaction.

(B) For purposes of paragraph (3), the term "subsection (e) asset" means, with respect to property held by any corporation, property described in clauses (i), (ii), (iii), and (iv) of subparagraph (A), except that clauses (i) and (iii) shall apply in respect of any shareholder who owns more than 5 percent in value of the outstanding stock of the corporation (in lieu of any shareholder who owns more than 20 percent in value of such stock).

(6) *Net unrealized appreciation defined.* (A) For purposes of this subsection, the term "net unrealized appreciation" means, with respect to the assets of a corporation, the amount by which—

(i) The unrealized appreciation in such assets on which there is unrealized appreciation, exceeds

(ii) The unrealized depreciation in such assets on which there is unrealized depreciation.

(B) For purposes of subparagraph (A) and paragraph (5)(A), the term "unrealized appreciation" means, with respect to any asset, the amount by which—

(i) The fair market value of such asset, exceeds

(ii) The adjusted basis for determining gain from the sale or other disposition of such asset.

(C) For purposes of subparagraph (A) and paragraph (5)(A), the term "unrealized depreciation" means, with respect to any asset, the amount by which—

(i) The adjusted basis for determining gain from the sale or other disposition of such asset, exceeds

(ii) The fair market value of such asset.

(D) For purposes of this paragraph (but not paragraph (5)(A)), in the case of any asset on the sale or exchange of which only a portion of the gain would under any provision of this chapter be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b), there shall be taken into account only an amount of the unrealized appreciation in such asset which is equal to such portion of the gain.

(7) *Net worth defined.* For purposes of this subsection, the net worth of a corporation, as of any day, is the amount by which—

(A) (i) The fair market value of all its assets at the close of such day, plus

(ii) The amount of any distribution in complete liquidation made by it on or before such day, exceeds

(B) All its liabilities at the close of such day.

For purposes of this paragraph, the net worth of a corporation as of any day shall not take into account any increase in net worth during the one-year period ending on such day to the extent attributable to any amount received by it for stock, or as a contribution to capital or as paid-in surplus, if it appears that there was not a bona fide business purpose for the transaction in respect of which such amount was received.

(8) *Related person defined.* For purposes of paragraphs (1) and (4), the following persons shall be considered to be related to a shareholder:

(A) If the shareholder is an individual—

(i) His spouse, ancestors, and lineal descendants, and

(ii) A corporation which is controlled by such shareholder.

(B) If the shareholder is a corporation—

(i) A corporation which controls, or is controlled by, the shareholder, and

(ii) If more than 50 percent in value of the outstanding stock of the shareholder is owned by any person, a corporation more than 50 percent in value of the outstanding stock of which is owned by the same person.

For purposes of determining the ownership of stock in applying subparagraphs (A) and (B), the rules of section 267(c) shall apply, except that the family of an individual shall include only his spouse, ancestors, and lineal descendants. For purposes of this paragraph, control means the ownership of stock possessing at least 50 percent of the total combined voting power of all classes of stock entitled to vote or at least 50 percent of the total value of shares of all classes of stock of the corporation.

(9) *Property used in the trade or business.* For purposes of this subsection, the term "property used in the trade or business" means property described in section 1231(b), without regard to any holding period therein provided.

(10) *Ownership of stock.* For purposes of this subsection (other than paragraph (8)), the ownership of stock shall be determined in the manner prescribed in subsection (d).

(11) *Corporations and shareholders not meeting requirements.* In determining whether or not any corporation is a collapsible corporation within the meaning of subsection (b), the fact that such corporation, or such corporation with respect to any of its shareholders, does not meet the requirements of paragraph (1), (2), (3), or (4) of this subsection shall not be taken into account, and such determination, in the case

of a corporation which does not meet such requirements, shall be made as if this subsection had not been enacted.

(12) *Nonapplication of section 1245(a).* For purposes of this subsection, the determination of whether gain from the sale or exchange of property would under any provision of this chapter be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b) shall be made without regard to the application of sections 1245(a) and 1250(a).

[Sec. 341 as amended by sec. 20, Technical Amendments Act 1958 (72 Stat. 1615); sec. 13(f)(4), Rev. Act 1962 (76 Stat. 1035); sec. 231(b)(4), Rev. Act 1964 (78 Stat. 105)]

PAR. 2. The following new section is inserted after § 1.341-5:

**§ 1.341-6 Exceptions to application of section.**

(a) *In general.*—(1) *Transactions excepted.* Section 341(e) excepts 4 types of transactions from the application of the collapsible corporation provisions. These exceptions, where applicable, eliminate the necessity of determining whether a corporation is a collapsible corporation within the meaning of section 341(b) or whether any of the limitations of section 341(d) are applicable. Under section 341(e) (1) and (2), there are 2 exceptions which are designed to allow the shareholders of a corporation either to sell or exchange their stock or to receive distributions in certain complete liquidations without having any gain considered under section 341(a) (1) or (2) as gain from the sale or exchange of property which is not a capital asset. Under section 341(e) (3), a third exception is designed to permit the shareholders of a corporation to make use of section 337, relating to elections as to recognition of gain in certain complete liquidations occurring within one calendar month. Under section 341(e) (4), the fourth exception permits a corporation to make use of section 337, relating to nonrecognition of gain or loss on sales or exchanges of property by a corporation following the adoption of a plan of complete liquidation. Section 341(e) does not apply to distributions in partial liquidation or in redemption of stock (other than any such distribution pursuant to a plan of complete liquidation), or to distributions described in section 301(c) (3) (A).

(2) *Effective date.* The exceptions in section 341(e) (1), (2), and (3) apply only with respect to taxable years of shareholders beginning after December 31, 1957, and only with respect to sales or exchanges of stock and distributions of property occurring after September 2, 1958. The exception in section 341(e) (4) applies only with respect to taxable years of corporations beginning after December 31, 1957, and only if all sales or exchanges of property, and all liquidating distributions, made by the corporation under the plan of complete liquidation occur after September 2, 1958.

(3) *Definition of constructive shareholder and attribution rules.* (i) For purposes of this section, the term "constructive shareholder" means a person who does not actually own any stock but who is considered to own stock by reason

of the application of subdivision (ii) of this subparagraph.

(ii) For purposes of this section (other than paragraph (k)), relating to definition of related person) a person shall be considered to own the stock he actually owns plus any stock which is attributed to him by reason of applying the rules prescribed in paragraph (b) (2) and (3) of § 1.341-4. See section 341(e) (10).

(iii) As an example of this subparagraph, if a husband does not actually own any stock in a corporation but his wife is the actual owner of 5 shares in the corporation, then the husband is a constructive shareholder who is considered to own 5 shares in the corporation.

(4) *General corporate test.* No exception provided in section 341(e) applies unless a general corporate test and, where applicable, a specific shareholder test are satisfied. Under the general corporate test no taxpayer may utilize the provisions of section 341(e) unless the net increase in value (called "net unrealized appreciation") in the corporation's "subsection (e) assets" does not exceed 15 percent of the corporation's net worth. Subsection (e) assets are, in general, those assets of the corporation which, if sold at a gain by the corporation or by any actual or constructive shareholder who is considered to own more than 20 percent in value of the outstanding stock, would result in the realization of ordinary income. See paragraph (b) of this section for the definition of subsection (e) assets, and paragraph (h) of this section for definition of net unrealized appreciation. This subparagraph may be illustrated by the following examples:

*Example (1).* X Corporation is in the business of selling whiskey. The net unrealized appreciation in its whiskey is \$20,000 and the net worth of the corporation is \$100,000. Since the corporation's whiskey is a subsection (e) asset and since the net unrealized appreciation in subsection (e) assets (\$20,000) exceeds 15 percent of net worth (\$15,000), the general corporate test is not satisfied and section 341(e) is inapplicable to the corporation or its shareholders.

*Example (2).* Assume the same facts as in example (1) except that X Corporation is not in the business of selling whiskey. Assume further that an actual shareholder who owns more than 20 percent in value of the outstanding X stock (or a person who is considered to own such actual shareholder's stock, such as his spouse) is in the business of selling whiskey. The result is the same as in example (1).

(5) *Specific shareholder test.* Even if the general corporate test is met, a shareholder selling or exchanging his stock or receiving a distribution with respect to his stock (referred to as a "specific shareholder") who is considered to own more than 5 percent in value of the outstanding stock of the corporation may not utilize the benefits of the exception in section 341(e) (1) (or the exception in section 341(e) (2)) unless he satisfies the applicable specific shareholder test. In general, the specific shareholder test is satisfied if the net unrealized appreciation in subsection (e) assets of the corporation, plus the net unrealized appreciation in certain other assets of the corporation which would be subsection

(e) assets in respect of the specific shareholder under the following circumstances, does not exceed 15 percent of the corporation's net worth:

(i) If the specific shareholder is considered to own more than 5 percent but not more than 20 percent in value of the outstanding stock, he must take into account the net unrealized appreciation in assets of the corporation which would be subsection (e) assets if he was considered to own more than 20 percent in value of the outstanding stock (see paragraph (c) (3) (i) of this section);

(ii) In addition, if the specific shareholder is considered to own more than 20 percent in value of the outstanding stock, he must also take into account the net unrealized appreciation in assets of the corporation which would be subsection (e) assets under section 341(e) (5) (A) (i) and (iii) if his ownership within the preceding 3 years of stock in certain "related" corporations were taken into account in the manner prescribed in paragraphs (c) (3) (ii) and (d) of this section.

(b) *Subsection (e) asset defined.*—(1) *General.* The benefits of section 341(e) are unavailable if the net unrealized appreciation (as defined in paragraph (h) of this section) in certain assets of the corporation (hereinafter called "subsection (e) assets") exceeds 15 percent of the corporation's net worth. In determining whether property is a subsection (e) asset, it is immaterial whether the property is described in section 341(b), and sections 1245 and 1250 (relating to gain from dispositions of depreciable property) shall not be taken into account.

(2) *Categories of subsection (e) assets.* The term "subsection (e) assets", as defined in section 341(e) (5) (A) (i), (ii), (iii), and (iv), means the following categories of property held by a corporation:

(i) The first category is property (except property described in section 1231 (b), without regard to any holding period prescribed therein) which in the hands of the corporation is, or in the hands of any actual or constructive shareholder who is considered to own more than 20 percent in value of the outstanding stock of the corporation would be, property gain from the sale or exchange of which would under any provision of chapter 1 of the Code (other than section 1245 or 1250) be considered in whole or in part as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b). For example, included in this category is property held by a corporation which in its hands is stock in trade, inventory, or property held by it primarily for sale to customers in the ordinary course of its trade or business regardless of whether such property is appreciated or depreciated in value. Also included in this category is property held by a corporation which is a capital asset in its hands but which, in the hands of any actual or constructive shareholder who is considered to own more than 20 percent in value of the outstanding stock, would be stock in trade, inventory, or property held by such actual or con-

structive shareholder primarily for sale to customers in the ordinary course of his trade or business. For additional rules relating to whether property is a subsection (e) asset under this subdivision, see subparagraphs (3), (4), and (5) of this paragraph.

(ii) The second category of subsection (e) assets is property which in the hands of the corporation is property described in section 1231(b) (without regard to any holding period prescribed therein), but only if there is net unrealized depreciation (within the meaning of paragraph (h) (2) of this section) on all such property. This subdivision may be illustrated by the following example:

*Example.* X Corporation owns only the following section 1231(b) property (determined without regard to holding period).

| Oil leaseholds | Adjusted basis | Fair market value | Unrealized appreciation (depreciation) |
|----------------|----------------|-------------------|----------------------------------------|
| No. 1.....     | \$10,000       | \$10,000          | (\$0,000)                              |
| No. 2.....     | 8,000          | 5,000             | (3,000)                                |
| No. 3.....     | 5,000          | 5,000             | 0                                      |
| No. 4.....     | 3,000          | 5,000             | 2,000                                  |
| Totals.....    | 32,000         | 25,000            | (7,000)                                |

Since with respect to such property the unrealized depreciation in property on which there is unrealized depreciation (\$9,000) exceeds the unrealized appreciation in property on which there is unrealized appreciation (\$2,000), all such property is included in subsection (e) assets under clause (ii) of section 341(e) (5) (A).

(iii) The third category of subsection (e) assets exists only if there is net unrealized appreciation on all property which in the hands of the corporation is property described in section 1231(b) (without regard to any holding period prescribed therein). In such case, any such section 1231(b) property (whether appreciated or depreciated) is a subsection (e) asset of the third category if, in the hands of an actual or constructive shareholder who is considered to own more than 20 percent in value of the outstanding stock of the corporation, such property would be property gain from the sale or exchange of which would under any provision of chapter 1 of the Code (other than section 1245 or 1250) be considered in whole or in part as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b). Included in this category, for example, is property which in the hands of the corporation is property described in section 1231(b) (without regard to any holding period prescribed therein), but which in the hands of an actual or constructive more-than-20-percent shareholder would be property used in his trade or business held for not more than 6 months, stock in trade, inventory, or property held by such shareholder primarily for sale to customers in the ordinary course of his trade or business. For additional rules relating to whether property is a subsection (e) asset under this subdivision, see subparagraphs (3) and (4) of this paragraph. This subdivision may be further illustrated by the following example:

*Example.* Assume the same facts as stated in the example under subdivision (ii) of this subparagraph, except that in addition to the oil leaseholds the corporation also owns land which has a fair market value of \$30,000 and an adjusted basis of \$20,000 and which in the hands of the corporation is property described in section 1231(b) (without regard to any holding period prescribed therein). Assume further that A is a constructive shareholder of the corporation who is considered to own 25 percent in value of its outstanding stock and that A holds land primarily for sale to customers in the ordinary course of his trade or business, and that no actual or constructive shareholder who is considered to own more than 20 percent in value of the stock of corporation X so holds oil leases. Since with respect to the corporation's section 1231(b) property the unrealized appreciation in such property on which there is unrealized appreciation (\$12,000) exceeds the unrealized depreciation in such property on which there is unrealized depreciation (\$9,000), then clause (iii), and not clause (ii), of section 341(e) (5) (A) is applicable. Therefore, no oil lease of the corporation is a subsection (e) asset. However, since in the hands of A, a more-than-20-percent constructive shareholder, the land would be property gain from the sale or exchange of which would be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b), the land is a subsection (e) asset. Consequently, the net unrealized appreciation on subsection (e) assets of the corporation is \$10,000 since the net unrealized depreciation on the oil leases is not taken into account.

(iv) The fourth category of subsection (e) assets is property (unless included under subdivision (i), (ii), or (iii) of this subparagraph) which consists of a copyright, a literary, musical, or artistic composition, or similar property, or any interest in any such property, if the property was created in whole or in part by the personal efforts of any individual actual or constructive shareholder who is considered to own more than 5 percent in value of the outstanding stock of the corporation. The phrase "similar property" includes, for example, such property as a theatrical production, a radio program, a newspaper cartoon strip, or any other property eligible for copyright protection (whether under statute or common law), but does not include a patent or an invention, or a design which may be protected only under the patent law and not under the copyright law. In general, property is created in whole or in part by the personal efforts of an individual if such individual performs literary, theatrical, musical, or other artistic work which affirmatively contributes to the creation of the property, or if such individual directs and guides others in the performance of such work. A corporate executive who merely has administrative control of writers, actors, and other artists and who does not substantially engage in the direction and guidance of such artists in the performance of their work, does not create property by his personal efforts.

(3) *Manner of determination.* For purposes of determining whether property is a subsection (e) asset under subparagraph (2) (i) or (iii) of this paragraph, the determination as to whether property of a corporation in the hands of the corporation is, or in the hands of an actual or constructive shareholder

of the corporation would be, property gain from the sale or exchange of which would under any provision of chapter 1 of the Code (other than section 1245 or 1250) be considered in whole or in part as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b) shall be made as if all property of the corporation had been sold or exchanged to one person in one transaction. For example, if a corporation whose sole asset is an interest in a gas well has entered into a long-term contract for the future delivery of gas from the well, the ownership of which will pass to the buyer only after extraction or severance from the well, the determination as to whether such contract is a subsection (e) asset shall be made as if the contract were sold or exchanged to one person in one transaction together with such corporation's interest in the well. An assumed sale under this subparagraph does not affect the character of property which is held for sale to customers in the ordinary course of a person's trade or business or the character of a transaction which would be an anticipatory assignment of income. Thus, for example, if a corporation holds subdivided lots for sale to customers in the ordinary course of its trade or business, this subparagraph shall not be applied to change the manner in which the lots are held.

(4) *Shareholder reference test.* For purposes of subparagraph (2) (i) and (iii) of this paragraph, in determining whether any property of the corporation would, in the hands of a particular actual or constructive shareholder, be property gain from the sale or exchange of which would be considered in whole or in part as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b), all the facts and circumstances of the direct and indirect activities of the shareholder must be taken into account. If the particular shareholder holds property primarily for sale to customers in the ordinary course of his trade or business and if similar property is held by the corporation, then in the hands of the shareholder such corporate property will be treated as held primarily for sale to customers in the ordinary course of his trade or business. Moreover, even if the shareholder does not presently so hold property which is similar to property held by the corporation, it may be determined under the particular facts and circumstances (taking into account an assumed sale of such corporate property by the shareholder, all his other direct and indirect activities, and, if applicable, the fact that he previously so held similar property) that he would hold the corporate property primarily for sale to customers in the ordinary course of his trade or business. See also paragraph (d) of this section, pertaining to effect of stock in related corporations.

(5) *Special rule for stock in shareholder's investment account.* If—

(i) A dealer in stock or securities is an actual shareholder (considered to own more than 20 percent of the out-

standing stock of a corporation) and holds such stock which he actually owns in his investment account pursuant to section 1236(a), or

(ii) A dealer in stock or securities is a constructive shareholder who is considered to own more than 20 percent of the outstanding stock of a corporation, then stock or securities held by such corporation shall not be considered subsection (e) assets under subparagraph (2)(i) of this paragraph solely because such actual or constructive shareholder is a dealer in stock or securities. However, stock held by such corporation shall be considered as a subsection (e) asset if, in the hands of any more-than-20-percent actual or constructive shareholder of the corporation, the gain (or any portion thereof) upon a sale of such stock would (if it were held for more than 6 months) constitute, by reason of the application of section 341, gain from the sale of property which is not a capital asset. This subparagraph may be illustrated by the following example:

**Example.** Jones, a more-than-20-percent actual shareholder in corporation X holds his X stock in an investment account in the manner prescribed in section 1236(a). Jones is a dealer in stock and securities and holds land for sale to customers in the ordinary course of his trade or business. No other actual or constructive shareholder is a dealer in stock and securities or so holds land. X holds all of the stock in corporation Y, a collapsible corporation within the meaning of section 341(b). Y's sole asset is land on which unrealized appreciation exceeds 15 percent of Y's net worth. Since Jones holds his X stock in an investment account pursuant to section 1236(a), the Y stock cannot be considered a subsection (e) asset of the X Corporation merely because Jones is a dealer in stock and securities. Nevertheless, the Y stock is a subsection (e) asset of the X Corporation because if Jones were treated as having sold the Y stock, his gain would be treated as gain from the sale of property which is not a capital asset by reason of the application of section 341. If, however, the net unrealized appreciation on Y's land did not exceed 15 percent of Y's net worth the Y stock would not be a subsection (e) asset since section 341(e)(1) would except such sale from the application of section 341.

(c) **Sales or exchanges of stock.**—(1) **General.** Section 341(e)(1) provides that, if certain requirements are satisfied, the provisions of section 341(a)(1) shall in no event apply to certain sales or exchanges of stock by a shareholder. See subparagraph (5) of this paragraph for sales or exchanges of stock which do not qualify under section 341(e)(1). Section 341(e)(1) applies to a sale or exchange of stock by a shareholder only if, at the time of such sale or exchange, the general corporate test and, if applicable, the specific shareholder test are satisfied.

(2) **General corporate test.** The general corporate test is satisfied if the net unrealized appreciation in subsection (e) assets of the corporation does not exceed an amount equal to 15 percent of the net worth of the corporation. See paragraphs (h), (b), and (j) of this section for the definition of "net unrealized appreciation," "subsection (e) assets," and "net worth."

(3) **Specific shareholder test.** The specific shareholder test (if applicable) is satisfied if the following conditions are met:

(i) If the shareholder selling or exchanging the stock is considered to own more than 5 percent but not more than 20 percent in value of the outstanding stock, the sum of the net unrealized appreciation in the following assets of the corporation must not exceed an amount equal to 15 percent of the net worth of the corporation:

(a) The subsection (e) assets of the corporation, plus

(b) The other assets of the corporation which would be subsection (e) assets under section 341(e)(5)(A)(i) and (iii) if such shareholder were considered to own more than 20 percent in value of the outstanding stock.

(ii) If the shareholder selling or exchanging the stock is considered to own more than 20 percent in value of the outstanding stock, the sum of the net unrealized appreciation in the following assets of the corporation must not exceed an amount equal to 15 percent of the net worth of the corporation:

(a) The subsection (e) assets of the corporation, plus

(b) The other assets of the corporation which would be subsection (e) assets under section 341(e)(5)(A)(i) and (iii) if the shareholder's ownership of stock in certain related corporations were taken into account in the manner prescribed in paragraph (d) of this section.

(4) **Example.** Subparagraph (3) of this paragraph may be illustrated by the following example:

**Example.** Assume an individual, A, and his grandfather, G, each actually owns 3 percent in value of the stock of corporation X, a corporation holding apartment houses used in its trade or business on which net unrealized appreciation exceeds 15 percent of X's net worth. A, but not G, holds apartment houses primarily for sale to customers in the ordinary course of trade or business. Assume that X satisfies the general corporate test. A and G desire to sell their stock and to take advantage of section 341(e)(1). Since a grandfather and grandson are each considered to own the other's stock under paragraph (a)(3)(ii) of this section, A and G are each considered to own 6 percent in value of corporation X's outstanding stock. Therefore, A cannot avail himself of section 341(e)(1) since he does not satisfy the specific shareholder test prescribed in subparagraph (3)(i) of this paragraph. G, however, who is considered to own 6 percent in value of the stock, does not hold apartment houses for sale to customers in the ordinary course of trade or business. Therefore, G satisfies the specific shareholder test and may benefit from section 341(e)(1).

(5) **Nonqualifying sales or exchanges.** Section 341(e)(1) does not apply to any sale or exchange of stock to the issuing corporation. Thus, stock redemptions (including distributions in complete or partial liquidation) cannot qualify under section 341(e)(1). In addition, section 341(e)(1) does not apply in any case where a shareholder who is considered to own more than 20 percent in value of the outstanding stock sells or exchanges stock to any person related (within the meaning of paragraph (k) of this section) to such shareholder.

A sale or exchange of stock of the corporation by a shareholder to which section 341(e)(1) does not apply because of this subparagraph shall have no effect on the application of this section to other sales or exchanges of stock of the corporation.

(6) **Example.** For an illustration of the application of this paragraph, see example (2) in paragraph (c) of this section.

(d) **Stock in related corporations.**—

(1) **General.** This paragraph provides rules for applying the specific shareholder test prescribed in paragraph (c)

(3)(ii) of this section for purposes of determining whether section 341(e)(1) (relating to sales or exchanges of stock of a corporation) or section 341(e)(2) (relating to distributions in complete liquidation of a corporation) applies to an actual shareholder who is considered as owning more than 20 percent in value of the corporation's outstanding stock. In general, if such a more-than-20-percent shareholder of such corporation (referred to as a "first" corporation) owns, or at any time during the preceding 3 years has owned, more than 20 percent in value of the outstanding stock of a "related" corporation (see subparagraph (2) of this paragraph), then certain transactions in respect of the stock of the related corporation are taken into account in the manner prescribed in subparagraph (3) of this paragraph. By taking such transactions into account, such shareholder of the first corporation may be deemed to hold primarily for sale to customers in the ordinary course of trade or business property similar or related in service or use to property owned by the first corporation where his other activities, direct and indirect, are insufficient to treat him as so holding such property. See section 341(e)(1)(C) and (2)(C). The transactions in respect of stock in a related corporation are taken into account solely for the purpose of determining the extent to which assets (other than subsection (e) assets) of the first corporation are treated as subsection (e) assets under the shareholder reference tests of section 341(e)(5)(A)(i) and (iii). For purposes of this paragraph, the term "similar or related in service or use" shall have the same meaning as such term has in section 1033 (relating to involuntary conversions), without regard to subsection (g) thereof.

(2) **Related corporation defined.** (i) A corporation (referred to as a "second" corporation) is "related" to another corporation (referred to as a "first" corporation) if the stock ownership test specified in subdivision (ii) of this subparagraph and the more-than-70-percent-asset comparison test specified in subdivision (iii) of this subparagraph are met.

(ii) The stock ownership test specified in this subdivision is met—

(a) In the case of a sale or exchange referred to in paragraph (c)(1) of this section, if the shareholder in the first corporation is considered to own on the date of such sale or exchange more than 20 percent in value of the outstanding stock of the first corporation, and if on

such date (or at any time during the 3-year period preceding such date) such shareholder in the first corporation is an actual or constructive shareholder in the second corporation who was considered to own more than 20 percent in value of the outstanding stock of the second corporation, or

(b) In the case of a distribution pursuant to the adoption by the first corporation of a plan of complete liquidation referred to in paragraph (e) of this section, if the shareholder in the first corporation is considered to own on any date after the adoption of such plan more than 20 percent in value of the outstanding stock of the first corporation, and if on such date (or at any time during the 3-year period preceding such date) such shareholder in the first corporation was an actual or constructive shareholder in the second corporation who was considered to own more than 20 percent in value of the outstanding stock of the second corporation.

(iii) The more-than-70-percent-asset comparison test specified in this subdivision is met if more than 70 percent in value of the assets of the second corporation (at any of the applicable times determined under subdivision (ii) of this subparagraph during which the shareholder of the first corporation is or was considered to own more than 20 percent in value of the outstanding stock of the second corporation) are, or were, assets similar or related in service or use to assets comprising more than 70 percent in value of the assets of the first corporation (at any of the times determined under subdivision (ii) of this subparagraph during which the shareholder of the first corporation is or was considered to own more than 20 percent in value of the outstanding stock of the first corporation).

(iv) This subparagraph may be illustrated by the following example:

**Example.** X is a first corporation and Y is a second corporation. On January 15, 1960, Jones purchased 21 percent in value of the outstanding stock of X, which he sold on January 1, 1961. On January 15, 1955, Jones had purchased 21 percent in value of the outstanding stock of Y which he sold on December 15, 1959. Since Jones owned 21 percent of the outstanding X stock on January 1, 1961 (the date he sold his X stock) and also owned 21 percent of the outstanding Y stock at some time during the 3-year period preceding January 1, 1961, the stock ownership test specified in subdivision (ii) (a) of this subparagraph is met. Assume that more than 70 percent in value of the assets of Y were apartment houses held for rental purposes at some time between January 1, 1958, and December 15, 1959 (the portion of the 3-year period preceding the date Jones sold his X stock during which he was a more-than-20-percent shareholder in Y) and that more than 70 percent in value of the assets of X were apartment houses held for rental purposes at some time during the period January 15, 1960, to January 1, 1961, inclusive (the portion of the 3-year period preceding the date he sold his X stock during which he was a more-than-20-percent shareholder in X). Thus, the more-than-70-percent-asset comparison test specified in subdivision (iii) of this subparagraph is met. Accordingly, corporation Y is related to corporation X within the meaning of this subparagraph.

(3) *Manner of taking into account.* If an actual shareholder in a first corporation who is considered to own more than 20 percent of the first corporation's stock, owns or has owned stock in a related corporation, then—

(i) Any sale or exchange by such shareholder, during the applicable period specified in subparagraph (2) (ii) of this paragraph, of stock in the related corporation shall be treated as a sale or exchange by him of his proportionate share of the assets of the related corporation, if immediately before such sale or exchange he was an actual shareholder of the related corporation who was considered to own more than 20 percent in value of the outstanding stock of the related corporation. A shareholder's proportionate share of the assets of a related corporation shall be that percent of each asset of the related corporation as the fair market value of the stock of the related corporation which he actually sold or exchanged bears, immediately before such sale or exchange, to the total fair market value of the outstanding stock of such related corporation; and

(ii) Any sale or exchange of property by the related corporation during the applicable period specified in subparagraph (2) (ii) of this paragraph, gain or loss on which was not recognized to the related corporation by reason of the application of section 337(a), shall be treated as a sale or exchange by him of his proportionate share of the related corporation's property sold or exchanged, if at the time of such sale or exchange he was an actual or constructive shareholder of the related corporation who was considered to own more than 20 percent in value of the outstanding stock of such related corporation. A shareholder's proportionate share of such related corporation's property sold or exchanged shall be that percent of each such property sold or exchanged as the fair market value of the stock which he was considered to own in the related corporation immediately before such sale or exchange bears to the total fair market value of the outstanding stock of such related corporation at such time.

(4) *Example.* This paragraph may be illustrated by the following example:

**Example.** (i) A owns 25 percent in value of the outstanding stock of Z Corporation. On December 31, 1959, he sells all his stock in the corporation and desires to take advantage of section 341(e)(1). The only asset of Z Corporation is an appreciated apartment house held for rental purposes but which is not a subsection (e) asset. However, during the preceding 3-year period A sold 25 percent in value of the outstanding stock of each of 3 related corporations. More than 70 percent in value of the assets of each related corporation consisted of an apartment house.

(ii) In determining whether the apartment house owned by Z Corporation would be a subsection (e) asset under the shareholder reference test of section 341(e)(5)(A)(iii), A is treated as having sold a one-fourth interest in each of 3 apartment houses during the preceding 3-year period and these sales must be taken into account, together with all other facts and circumstances, in determining whether the apartment house owned by Z Corporation would be, in the hands of

A, property gain from the sale or exchange of which would under any provision of chapter 1 of the Code (other than section 1245 or 1250) be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b). However, A's sales of related corporation stock are not taken into account in determining whether section 341(e)(1) or (2) would be applicable to sales or exchanges of stock by (or liquidating distributions to) other shareholders of Z Corporation.

(e) *Distributions in certain liquidations pursuant to section 337—*(1) *In general.* Section 341(e)(2) provides that, if certain requirements are met, the provisions of section 341(a)(2) shall in no event apply to certain distributions in complete liquidation of a corporation. Section 341(e)(2) applies with respect to any distribution to a shareholder pursuant to a plan of complete liquidation if the following 3 requirements are satisfied:

(i) By reason of the application of section 341(e)(4) and paragraph (g) of this section, section 337(a) applies to sales or exchanges of property by the corporation within the 12-month period beginning on the date of the adoption of such plan. Thus, for example, section 341(e)(2) is not applicable in any case where depreciable, amortizable, or depletable property is distributed after the date of adoption of the plan or if the corporation does not sell substantially all of the properties held by it on such date within such 12-month period, since such a distribution, or the failure to make such a sale, makes section 337(a) inapplicable under section 341(e)(4).

(ii) At all times within such 12-month period the general corporate test of paragraph (c)(2) of this section is satisfied.

(iii) In respect of the shareholder who receives the distribution—

(a) At all times within such 12-month period while such shareholder is considered to own more than 5 percent but not more than 20 percent in value of the outstanding stock of the corporation, the shareholder must satisfy the specific shareholder test of paragraph (c)(3)(i) of this section, and

(b) At all times within such 12-month period while such shareholder is considered to own more than 20 percent in value of the outstanding stock of the corporation, the shareholder must satisfy the specific shareholder test of paragraph (c)(3)(ii) of this section.

(2) *Illustration.* For an illustration of this paragraph, see example (4) in paragraph (c) of this section.

(f) *Recognition of gain in certain liquidations under section 333.* Section 341(e)(3) provides that, for purposes of section 333 (relating to elections as to recognition of gain in certain complete liquidations occurring within one calendar month), a corporation is considered not to be a collapsible corporation if, at all times after the adoption of the plan of complete liquidation, the net unrealized appreciation in subsection (e) assets of the corporation does not exceed an amount equal to 15 percent of the net worth of the corporation. For purposes of the preceding sentence, the determination of

subsection (e) assets shall be made in accordance with paragraph (b) of this section except that subparagraph (2) (i) and (iii) of such paragraph (b) shall apply in respect of any actual or constructive shareholder who is considered to own more than 5 percent in value of the outstanding stock (in lieu of any actual or constructive shareholder who is considered to own more than 20 percent in value of such stock). Thus, no shareholder of the corporation can qualify under paragraph (3) of section 341 (e) for use of section 333 if, because of any actual or constructive shareholder who is considered to own more than 5 percent in value of the stock, this modified general corporate test is not satisfied. On the other hand, once this modified general corporate test is satisfied, all the shareholders can use section 333 (assuming that the requirements of that section are satisfied) since there is no specific shareholder test. For an illustration of this paragraph, see example (3) in paragraph (c) of this section.

(g) *Gain or loss on sales or exchanges in connection with certain liquidations, pursuant to section 337.*—(1) *General.* Section 341(e)(4) provides that solely for purposes of section 337, a corporation is considered not to be a collapsible corporation if (i) at all times within the 12-month period beginning on the date of the adoption of a plan of complete liquidation, the net unrealized appreciation in subsection (e) assets of the corporation does not exceed an amount equal to 15 percent of the net worth of the corporation; (ii) within the 12-month period beginning on the date of the adoption of such plan, the corporation sells substantially all of the properties held by it on such date; and (iii) following the adoption of such plan, no distribution is made of any property which in the hands of the corporation or in the hands of the distributee is property in respect of which a deduction for exhaustion, wear and tear, obsolescence, amortization, or depletion is allowable. Thus, if at the time of the adoption of the plan of liquidation the corporation is a collapsible corporation within the meaning of section 341(b) and if the preceding requirements are satisfied, then except as provided in subparagraph (2) of this paragraph section 337(a) will apply to such corporation but the corporation will continue to be a collapsible corporation within the meaning of section 341(b) (including for purposes of section 341(e)(2)) with the result that each shareholder must still satisfy all the tests in paragraph (e) of this section before he can utilize the benefits of section 341(e)(2).

(2) *Exception to section 337 treatment.* Section 341(e)(4) shall not apply with respect to any sale or exchange of property by the corporation to any actual or constructive shareholder who is considered to own more than 20 percent in value of the outstanding stock of the corporation or to any person related (within the meaning of paragraph (k) of this section) to such actual or constructive shareholder if such property in the hands of the corporation, or in the hands of such shareholder or such related person, is property in respect of

which a deduction for exhaustion, wear and tear, obsolescence, amortization, or depletion is allowable. Thus, gain or loss will be recognized on such sales or exchanges.

(3) *Cross references.* For effective date of section 341(e)(4) and this paragraph, see paragraph (a)(2) of this section. For an illustration of this paragraph, see example (4) in paragraph (c) of this section.

(h) *Net unrealized appreciation and depreciation defined.*—(1) *Net unrealized appreciation.* For purposes of this section, the term "net unrealized appreciation" means, with respect to the assets of a corporation, the amount by which—

(i) The unrealized appreciation in such assets on which there is unrealized appreciation, exceeds

(ii) The unrealized depreciation in such assets on which there is unrealized depreciation.

(2) *Net unrealized depreciation.* For purposes of paragraph (b)(2)(ii) of this section, there is net unrealized depreciation on all property of a corporation which in its hands is property described in section 1231(b) (without regard to any holding period prescribed therein) if—

(i) The unrealized depreciation in such property on which there is unrealized depreciation, exceeds

(ii) The unrealized appreciation in such property on which there is unrealized appreciation.

(3) *Unrealized appreciation or depreciation.* For purposes of this paragraph—

(i) The term "unrealized appreciation" means (except as provided in subparagraph (4) of this paragraph), with respect to any asset, the amount by which (a) the fair market value of such asset, exceeds (b) the adjusted basis for determining gain from the sale or other disposition of such asset; and

(ii) The term "unrealized depreciation" means, with respect to any asset, the amount by which (a) the adjusted basis for determining gain from the sale or other disposition of such asset, exceeds (b) the fair market value of such asset.

(4) *Special rule.* For purposes of determining whether the net unrealized appreciation in subsection (e) assets of a corporation exceeds an amount equal to 15 percent of the corporation's net worth under the tests of section 341(e)(1), (2), (3), and (4), in the case of any asset on the sale or exchange of which only a portion of the gain would under any provision of chapter 1 of the Code (other than section 1245 or 1250) be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b), there shall be taken into account only an amount equal to the unrealized appreciation in such asset which is equal to such portion of the gain. This subparagraph shall have no effect on whether paragraph (b)(2)(ii) or (iii) of this section applies for purposes of identifying the subsection (e) assets of the corporation.

(i) [Reserved]

(j) *Net worth defined.* For purposes of this section, the net worth of a corpo-

ration, as of any day, is the amount by which—

(1) The fair market value of all its assets at the close of such day, plus the amount of any distribution (taken into account at fair market value on the date of such distribution) in complete liquidation made by it on or before such day, exceeds

(2) All its liabilities at the close of such day.

In computing the fair market value of all the assets of a corporation at the close of such day, there shall be excluded any amount attributable to money or property received by it during the one-year period ending on such day for stock, or as a contribution to capital or as paid-in surplus, if it appears that there was not a bona fide business purpose for the transaction in respect of which such money or property was received.

(k) *Related person defined.*—(1) *General.* For purposes of paragraphs (c)(5) and (g)(2) of this section, the following persons are considered to be related to a shareholder:

(i) If the shareholder is an individual—

(a) His spouse, ancestors, and lineal descendants, and

(b) Any corporation which is controlled by him.

(ii) If the shareholder is a corporation—

(a) A corporation which controls, or is controlled by, such shareholder, and

(b) If more than 50 percent in value of the outstanding stock of such shareholder is owned by any person, any corporation more than 50 percent in value of the outstanding stock of which is owned by the same person.

(2) *Control.* For purposes of this paragraph, control means the ownership of stock possessing at least 50 percent of the total combined voting power of all classes of stock entitled to vote or at least 50 percent of the total value of shares of all classes of stock of the corporation.

(3) *Constructive ownership rules.* In determining the ownership of stock for purposes of this paragraph, the constructive ownership rules of section 267 (c) shall apply, except that the family of an individual shall include only his spouse, ancestors, and lineal descendants.

(1) [Reserved]

(m) *Corporations and shareholders not meeting requirements.* In determining whether the provisions of section 341 (a) through (d) apply with respect to any corporation, the fact that such corporation, or such corporation with respect to any of its shareholders, does not meet the requirements of section 341 (e)(1), (2), (3), or (4) shall not be taken into account, and such determination shall be made as if section 341(e) had not been enacted.

(n) *Determinations without regard to sections 1245 and 1250.* For purposes of this section, the determination of whether gain from the sale or exchange of property would under any provision of chapter 1 of the Code be considered as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b) shall be made without regard to the ap-

plication of sections 1245(a) and 1250(a) (relating to gain on dispositions of depreciable property).

(c) *Illustrations.* The operation of section 341(e) may be illustrated by the following examples:

*Example (1).* (i) The outstanding stock of X Corporation is actually owned, on the basis of value, 75 percent by A, 15 percent by B, and 10 percent by C. None of the stock actually owned by one is attributed to another under the constructive ownership rules of paragraph (a)(3) of this section. The corporation owns no property which, in its hands, is property gain from the sale or exchange of which would be considered (without regard to section 1245 or 1250) as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b). The corporation owns no property described in section 1231(b) except an apartment house on which the unrealized appreciation is \$20,000 and which in the hands of A would be property held primarily for sale to customers in the ordinary course of trade or business. The corporation owns no property of the type described in clause (iv) of section 341(e)(5)(A). The net worth of the corporation is \$100,000.

(ii) Although the apartment house in the hands of the corporation is section 1231(b) property, in the hands of A, a more-than-20-percent shareholder, the apartment house would be ordinary-income type property. Therefore, the apartment house is a subsection (e) asset under clause (iii) of section 341(e)(5)(A). Accordingly, since the net unrealized appreciation in subsection (e) assets (\$20,000) exceeds 15 percent of net worth (\$15,000), the general corporate test is not satisfied and section 341(e) is unavailable to the corporation or its shareholders.

*Example (2).* (i) Assume the same facts as in example (1), except that in the hands of B, but not in the hands of A or C, the apartment house would be property held primarily for sale to customers in the ordinary course of trade or business.

(ii) Since B does not own more than 20 percent in value of the outstanding stock, the fact that the apartment house owned by the corporation would, in his hands, be property held primarily for sale to customers in the ordinary course of trade or business does not make the apartment house owned by the corporation a subsection (e) asset. Therefore, since the net unrealized appreciation in subsection (e) assets (zero) does not exceed 15 percent of net worth, the general corporate test is satisfied. C may sell his stock to anyone (other than X Corporation) and will qualify under section 341(e)(1). However, a sale by A of his stock to persons related to A within the meaning of paragraph (k) of this section will not so qualify.

(iii) B, however, since he owns more than 5 percent but not more than 20 percent in value of the outstanding stock, must take into account not only the net unrealized appreciation in subsection (e) assets but also the net unrealized appreciation in any other assets of the corporation which would be subsection (e) assets under section 341(e)(5)(A) if he owned more than 20 percent in value of the outstanding stock. Therefore, since the apartment house owned by the corporation would be, in B's hands, property held primarily for sale to customers in the ordinary course of trade or business, and since the net unrealized appreciation in such property (\$20,000) exceeds 15 percent of net worth (\$15,000), B does not satisfy the specific shareholder test and therefore cannot avail himself of section 341(e)(1).

*Example (3).* (i) Assume the same facts as in example (1), except that in the hands

of B, but not in the hands of A or C, the apartment house of the corporation would be property held primarily for sale to customers in the ordinary course of trade or business. Assume further that the shareholders of X Corporation wish to avail themselves of section 333.

(ii) For purposes of section 341(e)(3), section 341(e)(5)(A)(iii) applies in respect of any shareholder who owns more than 5 percent (instead of more than 20 percent) in value of the outstanding stock. Since in the hands of B, a more-than-5-percent shareholder, the apartment house would be held primarily for sale to customers in the ordinary course of trade or business, the corporation's apartment house is a subsection (e) asset. Therefore, since the net unrealized appreciation in subsection (e) assets (\$20,000) exceeds 15 percent of net worth (\$15,000), no shareholder of the corporation may qualify under section 341(e)(3) for use of section 333. However, if B were not a more-than-5-percent shareholder of the corporation, or if, in his hands, the apartment house would not be held primarily for sale to customers in the ordinary course of trade or business, then all shareholders of the corporation could qualify under section 341(e)(3) for use of section 333 since the apartment house would not be a subsection (e) asset.

*Example (4).* (i) Assume the same facts as in example (1), except that in the hands of no shareholder of the corporation would the apartment house be deemed property held primarily for sale to customers in the ordinary course of trade or business (such determination, however, having been made without regard to A's ownership of stock of related corporations). Assume further that (a) X Corporation adopts a plan of complete liquidation, (b) within the 12-month period beginning on the date of such adoption X Corporation sells substantially all the property held by it on such date and distributes all its assets in complete liquidation, (c) following the adoption of such plan, no distribution is made of any property which in the hands of the corporation or in the hands of the distributee is property in respect of which a deduction for exhaustion, wear and tear, obsolescence, amortization, or depletion is allowable, and (d) following the adoption of such plan no property is sold or exchanged to A, to a constructive owner of A's stock, or to a person "related" (within the meaning of paragraph (k) of this section) to A or such constructive owner.

(ii) Since, under the above-stated facts, the requirements of section 341(e)(4) are satisfied, section 337(a) will apply to sales or exchanges of property by the corporation within the 12-month period beginning on the date of the adoption of the plan of liquidation.

(iii) Any distribution in complete liquidation to B and C, who own 15 and 10 percent, respectively, in value of the outstanding stock, will qualify under section 341(e)(2) because (a) by reason of the application of section 341(e)(4), section 337(a) applies to sales or exchanges of property by the corporation, and (b) at all times within the 12-month period beginning on the date of the adoption of the plan of complete liquidation the general corporate test is satisfied and B and C each satisfy the specific shareholder test of paragraph (e)(1)(iii)(a) of this section.

(iv) Any distribution in complete liquidation to A, who owns 75 percent in value of the outstanding stock, will qualify under section 341(e)(2) if, at all times within the 12-month period beginning on the date of the adoption of the plan of complete liquidation, and after taking into account A's ownership of stock in related corporations in the manner prescribed in paragraph (d) of this section, A satisfies the specific shareholder test of paragraph (e)(1)(iii)(b) of this section.

PAR. 3. Section 1.341-1 is amended to read as follows:

**§ 1.341-1 Collapsible corporations; in general.**

Subject to the limitations contained in § 1.341-4 and the exceptions contained in § 1.341-6, the entire gain from (a) the actual sale or exchange of stock of a collapsible corporation, (b) amounts distributed in complete or partial liquidation of a collapsible corporation which are treated, under section 331, as payment in exchange for stock, and (c) a distribution made by a collapsible corporation which, under section 301(c)(3), is treated, to the extent it exceeds the basis of the stock, in the same manner as a gain from the sale or exchange of property, shall be considered as gain from the sale or exchange of property which is not a capital asset.

PAR. 4. Paragraph (a) of § 1.333-1 is amended to read as follows:

**§ 1.333-1 Corporate liquidation in some one calendar month.**

(a) *In general.* Section 333 provides a special rule, in the case of certain specifically described complete liquidations of domestic corporations occurring within some one calendar month, for the treatment of gain on the shares of stock owned by qualified electing shareholders at the time of the adoption of the plan of liquidation. The effect of such section is in general to postpone the recognition of that portion of a qualified electing shareholder's gain on the liquidation which would otherwise be recognized and which is attributable to appreciation in the value of certain corporate assets unrealized by the corporation at the time such assets are distributed in complete liquidation. Only qualified electing shareholders are entitled to the benefits of section 333. The determination of who is a qualified electing shareholder is to be made under section 333(c). For the basis of property received on such liquidations, see section 334(c). Section 333 has no application to gain in respect of stock of a collapsible corporation to which section 341(a) applies.

PAR. 5. Section 1.337-1 is amended to read as follows:

**§ 1.337-1 General.**

Except as provided in sections 337(c) and 392(b), if a corporation distributes all of its assets in complete liquidation within 12 months after the adoption of a plan of liquidation, which plan must be adopted on or after June 22, 1954, no gain or loss shall be recognized from the sale of property (as defined in section 337(b)) during such 12-month period. For this purpose such sales may be made before the adoption of the plan of liquidation if made on the same day such plan is adopted. All assets (less assets retained to meet claims), both tangible and intangible, must be distributed within the 12-month period. Any assets retained after the expiration of the 12-month period for the payment of claims (including unascertained or contingent liabilities or expenses) must be specified.

cally set apart for that purpose and must be reasonable in amount in relation to the items involved. The 12-month period shall begin on the date of adoption of the plan determined as provided in paragraph (b) of § 1.337-2 and no extension of such period can be granted. See section 453(d)(4)(B) relative to non-recognition of gain on the distribution of certain installment obligations. Except to the extent provided in section 341(e)(4), sales or exchanges made by a collapsible corporation (as defined in section 341(b)) are excluded from the operation of section 337 by section 337(c). Accordingly, except as provided in section 341(e)(4), section 337 does not apply to any sale or exchange of property whenever the distribution of such property in partial or complete liquidation to the shareholders in lieu of such sale or exchange would have resulted in the taxation of the gain from such distribution in the manner provided in section 341(a) as to any shareholder or would have resulted in the taxation of the gain in such manner, but for the application of section 341(d). Likewise, section 337 does not apply to sales or exchanges made by a corporation if such corporation is liquidated in a transaction to which section 333 is applicable, or in a transaction to which section 332 applies (except to the extent provided in section 337(c)(2)(B)). Section 392(b) provides special rules with respect to the recognition of gain or loss upon certain sales made by a liquidating corporation during 1954 and 1955.

(Sec. 7805 of the Internal Revenue Code of 1954; 68A Stat. 917; 26 U.S.C. 7805)

[F.R. Doc. 65-2301; Filed, Mar. 4, 1965; 8:46 a.m.]

## Title 5—ADMINISTRATIVE PERSONNEL

### Chapter I—Civil Service Commission

#### PART 213—EXCEPTED SERVICE

##### Department of the Air Force

Section 213.3109 is amended to show that positions at Lookout Mountain Laboratory, Los Angeles, Calif., are no longer excepted under Schedule A. Effective upon publication in the FEDERAL REGISTER, subparagraph (1) and the headnote for paragraph (c) of § 213.3109 are revoked.

(R.S. 1753, sec. 2, 22 Stat. 403, as amended; 5 U.S.C. 631, 633; E.O. 10577, 19 F.R. 7521, 3 CFR, 1954-1958 Comp., p. 218)

UNITED STATES CIVIL SERVICE COMMISSION,

[SEAL] MARY V. WENZEL,  
Executive Assistant to  
the Commissioners.

[F.R. Doc. 65-2325; Filed, Mar. 4, 1965; 8:50 a.m.]

#### PART 213—EXCEPTED SERVICE

##### Department of Justice

Section 213.3310 is amended to show that the positions of Deputy Director and Assistant Director (Research, Statistics, and Development) in the Bureau of Prisons and the position of Deputy Commissioner of Industries, Federal Prison Industries, Inc., are no longer excepted under Schedule C. Effective upon publication in the FEDERAL REGISTER, subparagraph (2) of paragraph (m) and subparagraph (2) of paragraph (n) of § 213.3310 are revoked and subparagraph (3) of paragraph (m) is amended as set out below.

##### § 213.3310 Department of Justice.

(m) Bureau of Prisons. \* \* \*

(3) Three Assistant Directors.

(R.S. 1753, sec. 2, 22 Stat. 403, as amended; 5 U.S.C. 631, 633; E.O. 10577, 19 F.R. 7521, 3 CFR, 1954-1958 Comp., p. 218)

UNITED STATES CIVIL SERVICE COMMISSION,

[SEAL] MARY V. WENZEL,  
Executive Assistant to  
the Commissioners.

[F.R. Doc. 65-2326; Filed, Mar. 4, 1965; 8:50 a.m.]

## Title 7—AGRICULTURE

### Chapter I—Consumer and Marketing Service,<sup>1</sup> (Standards, Inspections, Marketing Practices), Department of Agriculture

#### PART 26—GRAIN STANDARDS

##### Numerical Grades and Sample Grade and Grade Requirements

In the FEDERAL REGISTER of December 16, 1964 (29 F.R. 17816), there was published a notice of a proposal to amend § 26.127(a) of the Official Grain Standards of the United States for Wheat (7 CFR 26.127(a)) promulgated under authority of the United States Grain Standards Act, 39 Stat. 482, as amended (7 U.S.C. 71 et seq.). The proposal would increase the maximum limits of contrasting classes in grades No. 1, No. 2, and No. 3 from 0.5, 1.0, and 2.0 percent to 1.0, 2.0, and 3.0 percent, respectively, in all classes of wheat except mixed wheat. Interested persons were given 30 days in which to submit written comments, suggestions, or objections with respect to the proposed amendment.

*Statement of considerations.* Thirty-five persons or organizations submitted comments with respect to the proposal. Two of those submitting comments opposed the changes. Nineteen indorsed the changes but most of them felt that

<sup>1</sup> Effective Feb. 8, 1965, the name of the Agricultural Marketing Service was changed to the Consumer and Marketing Service.

further adjustments were needed. Most of these suggested a maximum limit of 2.0 percent of contrasting classes in grade No. 1, 3.0 percent for grade No. 2, and 4.0 percent for grade No. 3. One suggested that the change be made but that it should not apply to hard red spring wheat, hard red winter wheat, or durum wheat. Several suggested that tolerances for contrasting classes should be the same as was permitted in the standards that were in effect prior to June 1, 1964. Many of those who submitted comments suggested a greater relaxation than proposed, but nearly all agreed that a change was needed. Some of the comments received were not directed to the specific proposal but referred to related matters.

In order to obtain factual information about the effect of contrasting classes on the grading of wheat, a survey was made in the Pacific Northwest. The problem of downgrading of wheat because of contrasting classes was reported to be more serious in that area, particularly with the class White Wheat, than in other parts of the Nation. The survey covered more than 45,000 inspections of White Wheat of the 1964 crop, made during the period from July 15 through November 30, 1964. More than 92 percent of the lots covered by these inspections would have been graded No. 1 under the present standards on the basis of contrasting classes only. Slightly more than 95 percent would have been graded No. 1 under the proposed changes with respect to this factor.

To permit larger percentages of contrasting classes in grades No. 1, No. 2, and No. 3 than proposed would tend to lower the quality of wheat containing the maximum limits of contrasting classes and impair the competitive position of domestic wheat in the world market.

*Regulatory action.* After due consideration of all submissions made pursuant to the notice of proposed rule making and all other relevant matters, pursuant to the authority contained in section 2 of the United States Grain Standards Act (7 U.S.C. 74), the proposed amendment of the Official Grain Standards of the United States for Wheat, as published in the FEDERAL REGISTER on December 16, 1964 (F.R. Doc. 64-12879), is hereby adopted without change to become effective June 15, 1965.

(Sec. 2, 39 Stat. 482, as amended, sec. 8, 39 Stat. 485; 7 U.S.C. 74, 84; 29 F.R. 16210; 30 F.R. 1260)

Done at Washington, D.C., this 2d day of March 1965.

G. R. GRANGE,  
Deputy Administrator,  
Marketing Services.

Section 26.127(a) reads as follows:

§ 26.127 Numerical grades and sample grade and grade requirements.

(a) Numerical grades and sample grade and grade requirements for all classes of wheat except mixed wheat. (See also § 26.128.)

| Grade  | Minimum test weight per bushel |                   | Maximum limits of—   |                         |                  |                             |                 |                                     |                                |
|--------|--------------------------------|-------------------|----------------------|-------------------------|------------------|-----------------------------|-----------------|-------------------------------------|--------------------------------|
|        |                                |                   | Defects              |                         |                  |                             |                 | Wheat of other classes <sup>1</sup> |                                |
|        | Hard Red Spring Wheat          | All other classes | Heat-damaged kernels | Damaged kernels (total) | Foreign material | Shrunken and broken kernels | Defects (total) | Contrasting classes                 | Wheat of other classes (total) |
|        | Pounds                         | Pounds            | Percent              | Percent                 | Percent          | Percent                     | Percent         | Percent                             | Percent                        |
| 1..... | 58.0                           | 60.0              | 0.1                  | 2.0                     | 0.5              | 3.0                         | 3.0             | 1.0                                 | 3.0                            |
| 2..... | 57.0                           | 58.0              | 0.2                  | 4.0                     | 1.0              | 5.0                         | 5.0             | 2.0                                 | 5.0                            |
| 3..... | 55.0                           | 56.0              | 0.5                  | 7.0                     | 2.0              | 8.0                         | 8.0             | 3.0                                 | 10.0                           |
| 4..... | 53.0                           | 54.0              | 1.0                  | 10.0                    | 3.0              | 12.0                        | 12.0            | 10.0                                | 10.0                           |
| 5..... | 50.0                           | 51.0              | 3.0                  | 15.0                    | 5.0              | 20.0                        | 20.0            | 10.0                                | 10.0                           |

<sup>1</sup> Red Durum Wheat of any grade may contain not more than 10.0 percent of wheat of other classes.

Sample grade: Sample grade shall be wheat which does not meet the requirements for any of the grades from No. 1 to No. 5 inclusive; or which contains stones; or which is musty, or sour, or heating; or which has any commercially objectionable foreign odor except of smut or garlic; or which contains a quantity of smut so great that any one or more of the grade requirements cannot be applied accurately; or which is otherwise of distinctly low quality.

[F.R. Doc. 65-2331; Filed, Mar. 4, 1965; 8:49 a.m.]

## Chapter VII—Agricultural Stabilization and Conservation Service (Agricultural Adjustment), Department of Agriculture

### SUBCHAPTER C—SPECIAL PROGRAMS

## PART 751—LAND USE ADJUSTMENT PROGRAM

### Subpart—1964-65 Cropland Conversion Program

#### MISCELLANEOUS AMENDMENTS

The regulations governing the 1964-65 Cropland Conversion Program, 29 F.R. 13559, are hereby amended as follows:

1. The heading of § 751.62 is amended by adding after the word "base" the words "and other limitations."

2. Section 751.62(a) (1) is amended to read as follows: "annual grasses pastured or cut for hay or ensilage, provided a crop of seed or grain was not harvested from such grasses."

3. That part of § 751.62(a) beginning with the first proviso is amended to read as follows: "Provided, That for the purpose of determining the row crop and small grain base, acreage diverted during any year of the base period under the following programs and conditions shall be considered as having been devoted to row or small grain crops for such year: Feed grain, wheat stabilization, or wheat diversion program; conservation reserve program (including the 1963 land use adjustment program) where the acreage diverted represented a reduction in soil bank base crops; and the cropland conversion program or the Great Plains conservation program where the acreage diverted represented a reduction in non-conserving crops: *Provided further*, That for the purpose of determining the row crop and small grain base, any acreage formerly in the conservation reserve or Great Plains program and maintained in protective vegetative cover pursuant

to the regulations governing Reconstitution of Farms, Allotments, and Bases, 7 CFR Part 719, as amended, under conditions which represented a reduction in soil bank base or nonconserving crops shall be considered as devoted to row or small grain crops for each year and to the extent that farm allotments are preserved thereunder. Notwithstanding the above, where a conservation reserve contract (including a 1963 land use adjustment program agreement) expired on December 31, 1963, and the county committee determines that all of the conservation reserve cover was maintained by owners or operators in 1964 in anticipation of participating in a 1964 land use adjustment program, farms covered by a whole farm contract shall receive base credit in 1964 for an acreage equal to the farm soil bank base if no acreage was devoted in 1964 to row or small grain crops and farms covered by a part farm contract shall receive base credit for the acreage designated at the regular rate plus the 1964 acreage of row or small grain crops, not to exceed the soil bank base acreage for the farm."

4. Section 751.62 is amended by adding at the end thereof a new paragraph (f) to read as follows:

(f) Water from water storage facilities or wells established under the agreement shall not be used for irrigation purposes on other than the designated acreage during the period covered by the agreement.

5. Section 751.63(c) is amended by inserting immediately after the first sentence thereof the following new sentence: "In addition, in the case of a farm covered by a Great Plains conservation program contract, the number of acres which may be designated to receive an adjustment payment may not exceed the acreage which will be available for row and grain crop use under such contract during the crop year 1969 or the last crop year of such contract, whichever occurs first."

(Sec. 16(e), 76 Stat. 605; 16 U.S.C. 590p(e))

Effective date: Date of signature.

Signed at Washington, D.C., on March 2, 1965.

H. D. GODFREY,  
Administrator, Agricultural Stabilization and Conservation Service.

[F.R. Doc. 65-2335; Filed, Mar. 4, 1965; 8:49 a.m.]

## Chapter XIV—Commodity Credit Corporation, Department of Agriculture

### SUBCHAPTER B—LOANS, PURCHASES, AND OTHER OPERATIONS

[C.C.C. Grain Price Support Rereal Loan Regs., 1965 and Subsequent Storage Periods]

## PART 1421—GRAINS AND SIMILARLY HANDLED COMMODITIES

### Subpart—Rereal Loan Program

These regulations are applicable to rereal loan programs for the 1965 and subsequent storage periods.

#### Sec.

- 1421.3481 General.
- 1421.3482 Applicable sections of the General Regulations for 1964 and subsequent crops.
- 1421.3483 Eligibility requirements.
- 1421.3484 Redemption and delivery of Commodity.
- 1421.3485 Quantity eligible for rereal.
- 1421.3486 Quality.
- 1421.3487 Approved storage.
- 1421.3488 Storage payments.
- 1421.3489 Setoffs.
- 1421.3490 Commingling.
- 1421.3491 Maturity.

AUTHORITY: The provisions of this subpart issued under secs. 4 and 5, 62 Stat. 1070 as amended; secs. 101, 105, 107, 301, 401, 405, 63 Stat. 1051, as amended; 15 U.S.C. 714(b) and (c); 7 U.S.C. 1441, 1447, 1421, 1425.

### § 1421.3481 General.

The regulations in this subpart set forth continuing terms and conditions for rereal loans commencing in 1965 and any year thereafter with respect to any commodity of a particular crop for which an annual supplement to this subpart is issued authorizing rereal loans and storage periods for such crop of the commodity. Additional provisions for rereal loans (stating the crop of a particular commodity for which rereal loans will be granted, the area in which such rereal loans will be granted, the rates and period during which CCC will pay for storage of commodities under rereal loan, quality and other appropriate requirements) shall appear in the annual supplements to this subpart. To participate in the rereal loan program under this subpart, a producer must file an application requesting a rereal loan or extension of a rereal loan with the county office and have such application approved by that office. A rereal loan will be granted on an eligible commodity which is in approved storage and is covered by a loan evidenced by a note and secured by a chattel mortgage. A rereal loan granted under this subpart will be due on demand by CCC. A producer may redeem his rereal loan, or deliver the commodity covered by such loan to CCC, on the terms and conditions appearing in this subpart and the applicable annual supplement. Any reference in this subpart to a section of another regulation shall be deemed to refer to such section and any amendments thereto. As used in these regulations, "CCC" means the Commodity Credit Corporation, and "ASCS" means the Agricultural Stabilization and Conservation Service of the United States Department of Agriculture. The term "rereal loan" means a

price support loan on a farm stored commodity evidenced by a Producer's Note and Supplemental Loan Agreement and Commodity Chattel Mortgage or a Farm Storage Note, Chattel Mortgage and Security Agreement (such forms hereinafter called "note and mortgage") for which the maturity date is extended, or price support loan on a farm-stored commodity obtained under § 1421.3483 (c) and evidenced by such note and mortgage, both subject to the terms and conditions of this subpart and the Reseal of Farm Storage Loan Program.

**§ 1421.3482 Applicable sections of the General Regulations for 1964 and subsequent crops.**

The following sections of the General Regulations Governing Price Support for 1964 and Subsequent Crops published in 29 F.R. 2686 shall be applicable to the reseal loan program for 1965 and subsequent years: §§ 1421.51, 1421.52 (a) through (e), 1421.54, 1421.57, 1421.59, 1421.60(b), 1421.61, 1421.62(b), 1421.63 through 1421.65, 1421.66 (a), (c), (d), and (e), 1421.67, 1421.68 (a) and (b), 1421.69 (c) and (d), 1421.72 (c), (d), (e), (f), (j), and (k), and 1421.73 through 1421.78.

**§ 1421.3483 Eligibility requirements.**

(a) *Producer.* A producer shall be eligible to participate in this program if he has an eligible commodity under a farm storage loan for which a reseal loan program has been authorized in an annual supplement hereto.

(b) *When to apply.* The producer must apply for a reseal loan within two calendar months after maturity of his loan unless a later date is authorized by the State committee.

(c) *New loans.* A producer who has a commodity covered by an application for price support on a farm-stored commodity must place such commodity under loan in order for it to be eligible for reseal. Loans for reseal purposes shall be made no later than two calendar months after the maturity date for the loan on the commodity unless a later date is authorized by the State committee.

(d) *Disbursement of loans.* Disbursement of a new loan referred to in paragraph (c) of this section will be made to a producer by ASCS county offices by means of sight drafts drawn on CCC or by credit to the producer's account. The producer shall not present the loan documents for disbursement unless the commodity covered by the mortgage is in existence. If the commodity was not in existence at the time of disbursement, the total amount disbursed under the loan shall be refunded promptly by the producer.

**§ 1421.3484 Redemption and delivery of commodity.**

A producer may redeem the commodity at any time by paying off his reseal loan. If a producer elects to deliver his commodity to CCC, he must give the county office which made the original loan on such commodity notice of his election within a thirty-day period ending with the anniversary of the maturity date of his original loan or in the case of

loans made under § 1421.3483(c) within a thirty-day period ending with the anniversary date for farm-stored price support loans applicable to the crop of the commodity on which such loan was obtained. He must thereafter deliver the commodity for which notice was given in accordance with delivery instructions issued by the county office.

**§ 1421.3485 Quantity eligible for reseal.**

The quantity eligible for reseal shall be the measured or estimated quantity necessary to secure the original loan and any additional quantity placed under loan as provided in § 1421.3483(c), less any quantity delivered to CCC or redeemed by the producer prior to reseal, except that, if the quantity in the bin(s) or crib(s) securing the loan exceeds such measured or estimated quantity as determined under § 1421.61(a), the entire quantity in the bin(s) or crib(s) shall be ineligible for reseal unless the excess is placed under loan as provided in § 1421.3483(c) hereof, or unless such excess is removed from the bin(s) or crib(s) as provided in § 1421.68(a).

**§ 1421.3486 Quality.**

Prior to approval of a reseal loan the commodity will be inspected by the county committee or its representative and a reseal loan will not be approved unless it is determined on the basis of such inspection that the quality of the commodity is such that it can reasonably be expected to be stored with safety for the authorized storage period of the reseal loan.

**§ 1421.3487 Approved storage.**

Approved storage shall consist of a storage structure located on or off the farm (excluding public warehouses), which the county committee or its representative determine will afford safe storage for the commodity.

**§ 1421.3488 Storage payments.**

(a) *Time.* Storage payments shall be made at least annually at the end of the authorized storage period and may be made during the authorized storage period at frequencies determined by CCC. Final storage payments will be made at time loan is redeemed or upon settlement when the commodity is delivered.

(b) *Storage payment units.* Storage payments shall be based on units of 100 bushels or 100 hundredweight, as applicable, with respect to the commodity under loan. Storage payments made prior to redemption or delivery of the commodity shall be computed on the basis of the quantity on which the reseal loan was made rounded to the nearest whole unit. Final storage payments shall be computed on the quantity redeemed or delivered rounded to the nearest tenth of a unit.

(c) *Storage credit.* Credit will be given for each full month of storage. Credit will not be allowed for the month in which redemption or delivery is made or loss or damage to the commodity to be assumed by CCC under § 1421.65 occurs. A final storage payment made within two calendar months after the anniversary of the original loan maturity

date shall not include a storage payment for any part of the two months period.

(d) *Quantity eligible.* The maximum quantity eligible for storage payment prior to redemption or delivery under paragraphs (a) and (b) of this section shall be the quantity in the bin(s) or crib(s) eligible for reseal loan under § 1421.3485, as determined by CCC. Adjustments for prior years' storage payments will be made with the producer at the time of final settlement based on the quantity of the commodity delivered to CCC or redeemed by the producer except that, in the case of loss or damage to the commodity assumed by CCC under § 1421.65, the producer shall be entitled to a storage payment on the quantity lost or damaged, as determined by CCC, up to the time provided for in paragraph (c) of this section.

(e) *No storage payments.* Notwithstanding the provisions of this section, in no case will any storage payment be made: If the producer has made any false representation in the loan documents, in obtaining the loan, or in settlement of the loan; if the commodity has been abandoned; if there has been conversion with intent to defraud on the part of the producer; or if the commodity was damaged or otherwise impaired due to negligence on the part of the producer. If a producer received payment of any amount to which he is not entitled, he shall refund such amount plus interest thereon promptly upon demand.

**§ 1421.3489 Setoffs.**

Any storage payment, proceeds of a new loan obtained under § 1421.3483(c), or any proceeds due the producer on settlement are subject to the setoff provisions of § 1421.64.

**§ 1421.3490 Commingling.**

(a) *When permitted.* When authorized by the State committee, the county committee may permit producer(s) to commingle quantities of a commodity which are under more than one loan and which are considered safe for commingling by the county committee subject to the following conditions: (1) When two or more producers commingle a commodity, they shall be jointly and severally liable for the entire loan. (2) The commodity must be of the same class and be eligible for commingling.

(b) *Special conditions.* Notwithstanding any other provision of this subpart, the following shall apply if quantities of a commodity covered by more than one loan are commingled as provided in paragraph (a) of this section: (1) Partial deliveries of commingled commodities may be permitted only to the extent that the entire contents of a bin or crib of the commingled commodity can be delivered; (2) if partial redemptions are made in accordance with other provisions of these regulations, the quantity redeemed shall be prorated to each loan on the basis of the ratio of the quantity on which each loan was made to the total quantity on which all the loans secured by the commingled commodities were made; and the dollar amount to be credited to each loan shall be based on the amount of the loan represented by the quantity determined to have been

redeemed from loan; (3) producers whose commodities are commingled shall be jointly and severally responsible for the amount of each loan secured by the commingled commodity; (4) for settlement purposes, (i) if a commodity of more than one crop year has been commingled the quantity delivered shall be prorated to each loan based on the ratio that the quantity on which the loan was made bears to the quantity covered by all the loans on the commingled commodity; and if less than the total quantity covered by the commingled loan is delivered, the quantity delivered shall be applied first to the loan having the commodity with the lowest basic support rate up to the total amount on which the loan was made and the balance, if any, shall be applied to the other loans proceeding successively in order of the loans having increasingly higher basic support rates, (ii) if a commodity of more than one crop year has been commingled, and a commodity of different grades and qualities is delivered, the quantity of each grade and quality to be credited to each loan shall be as determined by the county office, but the total quantity of all of the grades and qualities credited to the loan shall be an amount determined under subdivision (i) of this subparagraph.

#### § 1421.3491 Maturity.

Farm storage loans extended under the resale program will mature on demand.

Effective date: Upon publication in the *FEDERAL REGISTER*.

Signed at Washington, D.C., on March 2, 1965.

H. D. GODFREY,  
Executive Vice President,  
Commodity Credit Corporation.

[F.R. Doc. 65-2333; Filed, Mar. 4, 1965;  
8:49 a.m.]

[Amdt. 1]

### PART 1475—EMERGENCY FEED PROGRAM

#### Subpart—Livestock Feed Program

##### SALES OF GRAIN ADVANCED BY DEALERS

The regulations issued by the Commodity Credit Corporation published in 29 F.R. 13475 which contain specific requirements for the continuing Livestock Feed Program are amended as follows:

Section 1475.211(e) (3) and (4) is amended to read:

§ 1475.211 Sales of grain advanced by dealers.

(e) \* \* \*

(3) A Dealer's Certificate will be accepted at face value if presented to a commodity office or other office designated by a commodity office or DASCO and applied to the purchase of a feed grain, in accordance with these regulations, under a contract which specifies a "date of sale" not more than 30 days after the effective date of the certificate. If the specified date of sale is after such 30th day the face value shall be reduced by one twenty-fifth of one percent for each day beginning on the 31st day after

the effective date of the certificate to, but not including, the date of sale specified in the CCC contract to which it is applied. The certificates may be transferred by endorsement to any other person. CCC reserves the right to determine the time and place of delivery and the class, grade and quality of feed grain to be delivered in redemption of Dealer's Certificates. Feed grain delivered under a Dealer's Certificate shall be sold at the applicable current market price determined by CCC. Overdeliveries of the quantity of grain requested shall be adjusted at the applicable market price.

(4) If the full amount of the Dealer's Certificate is not redeemed in feed grain a balance certificate shall be issued for the unused amount. If the amount is \$3.00 or less, no balance certificate will be issued unless requested. The effective date of the balance certificate shall be the effective date of the original certificate against which it is issued plus the number of days the certificate is in the hands of CCC before the balance certificate is issued. Balance certificates may be redeemed in feed grains in the same manner as the original certificates.

Effective date: Date of signature.

Signed at Washington, D.C., on March 2, 1965.

H. D. GODFREY,  
Executive Vice President,  
Commodity Credit Corporation.

[F.R. Doc. 65-2334; Filed, Mar. 4, 1965;  
8:49 a.m.]

## Title 12—BANKS AND BANKING

### Chapter II—Federal Reserve System

#### SUBCHAPTER A—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. M]

### PART 213—FOREIGN BRANCHES OF NATIONAL BANKS

#### Interest on Deposits of Officers and Employees

1. Effective March 1, 1965, § 213.4 is amended by adding a new paragraph (g) thereto to read as follows:

§ 213.4 Further powers of foreign branches.

(g) Pay to any officer or employee of the branch a greater rate of interest on deposits than that paid to other depositors on similar deposits with the branch.

2 a. The purpose of this amendment is to permit overseas branches of national banks to pay higher rates of interest on deposits of their officers and employees than on deposits of other customers where it is usual to do so in connection with the business of banking in the places where the branches are located. This action is expected to enable such branches to compete more effectively in the hiring and retention of qualified staffs.

b. There was no notice and public participation with respect to this amendment, nor is the effective date thereof deferred, as such procedure and delay

would be contrary to the public interest and serve no useful purpose. (See § 262.1 (e) of the Board's rules of procedure (12 CFR 262.1(e)).)

Dated at Washington, D.C., this 1st day of March 1965.

BOARD OF GOVERNORS OF  
THE FEDERAL RESERVE  
SYSTEM,  
MERRITT SHERMAN,  
Secretary.

[SEAL]

[F.R. Doc. 65-2280; Filed, Mar. 4, 1965;  
8:45 a.m.]

### Chapter V—Federal Home Loan Bank Board

#### SUBCHAPTER C—FEDERAL SAVINGS AND LOAN SYSTEM

[No. 18,946]

### PART 545—OPERATIONS

#### Loans To Finance Acquisition and Development of Land

MARCH 2, 1965.

Resolved that the Federal Home Loan Bank Board upon the basis of consideration by it of the advisability of amendment of § 545.6-14 of the rules and regulations for the Federal Savings and Loan System (12 CFR 545.6-14) as hereinafter set forth to clarify the regulation with respect to the authority to make construction loans and for the purpose of effecting such amendment hereby amends said § 545.6-14, as follows, effective March 5, 1965:

Paragraph (a) of § 545.6-14 is hereby amended by deleting therefrom the second sentence and, as so amended shall read as follows:

§ 545.6-14 Loans to finance acquisition and development of land; loans to finance construction of homes inclusive of acquisition and development of land.

(a) General provisions. Subject to the provisions of this section, a Federal association may, if permitted by the terms of its charter, invest in loans to finance (1) the acquisition and development of land for primarily residential usage and (2) the construction of homes or single-family dwellings, inclusive of acquisition and development of land primarily for the purpose of such construction. Such loan plans, practices and procedures as are not inconsistent with this section or with other provisions of this part otherwise applicable to the making of loans on the security of first liens are hereby approved by the Board for use by Federal associations in the making of loans under this section.

(Sec. 5, 48 Stat. 132, as amended; 12 U.S.C. 1464. Reorg. Plan No. 3 of 1947, 12 F.R. 4931, 3 CFR, 1947 Supp.)

Resolved further that, as the foregoing amendment merely clarifies the subject regulation by deleting therefrom a sentence subject to misinterpretation and does not necessitate any change in the operation of Federal savings and loan associations now being carried on, the Board hereby finds that notice and public

procedure on said amendment are unnecessary under § 508.12 of the general regulations of the Federal Home Loan Bank Board (12 CFR 508.12) or section 4(a) of the Administrative Procedure Act, and the Board hereby finds that, for the same reason, publication of said amendment for the period specified in section 4(c) of said act and § 508.14 of the general regulations of the Federal Home Loan Bank Board (12 CFR 508.14) prior to the effective date of said amendment is unnecessary.

By the Federal Home Loan Bank Board.

[SEAL]

HARRY W. CAULSEN,  
Secretary.

[F.R. Doc. 65-2321; Filed, Mar. 4, 1965;  
8:49 a.m.]

## Title 14—AERONAUTICS AND SPACE

### Chapter I—Federal Aviation Agency

[Docket No. 5067; Amdt. 39-43]

#### PART 39—AIRWORTHINESS DIRECTIVES

##### Boeing Models 707 and 720 Series Aircraft

Amendment 731, 29 F.R. 6614, AD 64-11-1, as amended by Amendment 799, 29 F.R. 12029, requires repetitive inspection of the front and rear upper and lower wing spar chords on certain Boeing Models 707 and 720 Series aircraft and repair if cracks are found. The Agency has determined that repair of a spar chord in accordance with paragraph (b) (2) of the AD is in fact a redesign of the chord, and therefore, the repetitive inspections required by paragraph (b) (1) may be discontinued on spar chords repaired in accordance with paragraph (b) (2). Therefore, the AD is further amended to provide for the discontinuance of repetitive inspections for such chords.

Since this amendment relieves a restriction and imposes no additional burden on any person, notice and public procedure hereon are unnecessary and the amendment may be made effective in less than 30 days.

In consideration of the foregoing, and pursuant to the authority delegated to me by the Administrator (25 F.R. 6489), § 39.13 of Part 39 (14 CFR Part 39), is amended as follows:

Amendment 731, 29 F.R. 6614, AD 64-11-1, as amended by Amendment 799, 29 F.R. 12029, Boeing Models 707 and 720 Series aircraft, is further amended by adding to paragraph (b) (2) the following sentence: "The repetitive inspections required by subparagraph (1) may be discontinued on any chord repaired in accordance with this subparagraph."

This amendment shall become effective March 5, 1965.

(Secs. 313(a), 601, 603; 72 Stat. 752, 775, 776;  
49 U.S.C. 1354(a), 1421, 1423)

Issued in Washington, D.C., on March 1, 1965.

C. W. WALKER,  
Acting Director,  
Flight Standards Service.

[F.R. Doc. 65-2277; Filed, Mar. 4, 1965;  
8:45 a.m.]

[Airspace Docket No. 63-WE-95]

#### PART 71—DESIGNATION OF FEDERAL AIRWAYS, CONTROLLED AIRSPACE, AND REPORTING POINTS

##### Alteration of Control Zone, Revocation of Control Area Extension and Designation of Transition Areas

On December 24, 1964, a Notice of Proposed Rule Making was published in the FEDERAL REGISTER (29 F.R. 18382). It was stated that the Federal Aviation Agency proposed alteration of the controlled airspace in the Boise, Idaho, terminal area.

Interested persons were afforded an opportunity to participate in the rule making through submission of comments. All comments received were favorable.

In consideration of the foregoing, Part 71 of the Federal Aviation Regulations is amended, effective 0001 e.s.t., May 27, 1965, as hereinafter set forth.

1. In § 71.171 (29 F.R. 17581), the Boise, Idaho, control zone is amended to read:

##### BOISE, IDAHO

With a 5-mile radius of Boise Air Terminal (latitude 44°33'55" N., longitude 116°13'35" W.); within 2 miles each side of the Boise VORTAC 302° radial, extending from the 5-mile radius zone to 12 miles NW of the VORTAC and within 2 miles each side of the Boise VORTAC 130° radial, extending from the 5-mile radius zone to 12 miles SE of the VORTAC.

2. In § 71.165 (29 F.R. 17557), the Boise, Idaho, control area extension is revoked.

3. In § 71.181 (29 F.R. 17643) the following transition areas are added:

##### BOISE, IDAHO

That airspace extending upward from 700 feet above the surface within an 8-mile radius of the Boise VORTAC; within 2 miles each side of the 295° bearing from the Boise ILS OM, extending from the 8-mile radius area to 12 miles NW of the LOM; within 2 miles each side of the 328° bearing from the ILS OM, extending from the 8-mile radius area to the Eagle FM and within 2 miles each side of the Boise VORTAC 130° radial, extending from 12 miles to 15 miles SE of the VORTAC; that airspace extending upward from 1,200 feet above the surface within a 25-mile radius of the Boise VORTAC, extending clockwise from a line 8 miles NE of and parallel to the Boise VORTAC 319° radial to the Boise VORTAC 204° radial; within a 40-mile radius of the Boise VORTAC extending clockwise from the Boise VORTAC 204° radial to a line 8 miles NE of and parallel to the Boise VORTAC 319° radial; within 8 miles S and 7 miles N of the Boise VORTAC 269° radial, extending from the 40-mile radius area to 57 miles W of the VORTAC; within 8 miles NE and 11 miles SW of the Boise VORTAC 294° radial, extending from the 40-mile radius area to 75 miles NW of the VORTAC; within 8 miles NE and 16 miles SW of the Boise VORTAC 319° radial, extending from the 40-mile radius area to 55 miles NW of the VORTAC; and that airspace extending upward from 10,500 feet MSL SE of V-507, within 5 miles each side of the Rome, Oreg.,

VORTAC 056° radial, extending from 46 miles NE of the VORTAC to the Boise 40-mile radius area.

##### ONTARIO, OREGON

That airspace extending upward from 700 feet above the surface within a 5-mile radius of Ontario Municipal Airport (latitude 44°-01'15" N., longitude 117°00'43" W.); within 2 miles each side of the Ontario RBN 159° bearing, extending from the 5-mile radius area to 8 miles S of the RBN, and within 2 miles each side of the Ontario RBN 025° bearing, extending from the 5-mile radius area to 8 miles NE of the RBN. (Sec. 307(a) of the Federal Aviation Act of 1958, as amended; 49 U.S.C. 1348)

Issued in Los Angeles, Calif., on February 25, 1965.

WILLIAM R. KRIEGER,  
Acting Director, Western Region.

[F.R. Doc. 65-2284; Filed, Mar. 4, 1965;  
8:45 a.m.]

[Airspace Docket No. 63-WE-98]

#### PART 71—DESIGNATION OF FEDERAL AIRWAYS, CONTROLLED AIRSPACE, AND REPORTING POINTS

##### Alteration of Control Zone, Designation of Transition Area and Revocation of Control Area Extension

On December 24, 1964, a notice of proposed rule making was published in the FEDERAL REGISTER (29 F.R. 18383). It was stated that the Federal Aviation Agency proposes to alter the controlled airspace in the Cheyenne, Wyo., terminal area.

Interested persons were afforded an opportunity to participate in the rule making through submission of comments. All comments received were favorable.

In consideration of the foregoing, Part 71 of the Federal Aviation Regulations is amended effective 0001 e.s.t., June 24, 1965, as hereinafter set forth.

1. In § 71.171 (29 F.R. 17590), the Cheyenne, Wyo., control zone is amended to read:

##### CHEYENNE, WYO.

Within a 5-mile radius of Cheyenne Municipal Airport (latitude 41°09'20" N., longitude 104°48'30" W.) and within 2 miles each side of the Cheyenne ILS localizer E course, extending from the 5-mile radius zone to the OM.

2. In § 71.165 (29 F.R. 17560), the Cheyenne, Wyo., control area extension is revoked.

3. In § 71.181 (29 F.R. 17643), the Cheyenne, Wyo., transition area is added as follows:

##### CHEYENNE, WYO.

That airspace extending upward from 700 feet above the surface within a 14-mile radius of the Cheyenne Municipal Airport (latitude 41°09'20" N., longitude 104°48'30" W.); that airspace extending upward from 1,200 feet above the surface bounded on the NE by V-6, on the SE by V-207, on the SW by V-4N and on the NW by V-524, and that airspace NW of Cheyenne within 7 miles NE and 10 miles SW of the Cheyenne VORTAC 305° radial, extending from the VORTAC to 47 miles NW of the VORTAC, excluding the portions within the Laramie, Wyo., transition area.

(Sec. 307(a) of the Federal Aviation Act of 1958, as amended; 49 U.S.C. 1348)

Issued in Los Angeles, Calif., on February 25, 1965.

WILLIAM R. KRIEGER,  
Acting Director, Western Region.

[F.R. Doc. 65-2285; Filed, Mar. 4, 1965;  
8:45 a.m.]

[Airspace Docket No. 65-WE-22]

## PART 71—DESIGNATION OF FEDERAL AIRWAYS, CONTROLLED AIRSPACE AND REPORTING POINTS

### Revocation of Transition Area

The purpose of this amendment to § 71.181 of the Federal Aviation Regulations is to revoke the Hugo, Colo., transition area.

The Federal Aviation Agency has determined that the Hugo transition area is no longer required for air traffic control purposes and, therefore, is no longer justified as an assignment of controlled airspace. Action is taken herein to revoke the Hugo transition area.

Since this amendment is minor in nature and imposes no additional burden on any person, notice and public procedure hereon are unnecessary and the amendment may be made effective immediately.

In consideration of the foregoing, Part 71 of the Federal Aviation Regulations is amended, effective immediately, as hereinafter set forth:

Section 71.181 (29 F.R. 17671) is amended revoking the following transition area:

Hugo, Colo.

(Sec. 307(a) of the Federal Aviation Act of 1958, as amended; 49 U.S.C. 1348)

Issued in Los Angeles, Calif., on February 25, 1965.

WILLIAM R. KRIEGER,  
Acting Director, Western Region.

[F.R. Doc. 65-2286; Filed, Mar. 4, 1965;  
8:45 a.m.]

[Airspace Docket No. 63-WE-34]

## PART 71—DESIGNATION OF FEDERAL AIRWAYS, CONTROLLED AIRSPACE, AND REPORTING POINTS

### Revocation of Control Area Extension and Transition Area, and Designation of Transition Area

On July 17, 1964, a Notice of Proposed Rule Making was published in the *FEDERAL REGISTER* (29 F.R. 9673) stating that the Federal Aviation Agency proposed to amend Part 71 of the Federal Aviation Regulations to alter the Oxnard, Calif., control zone, revoke the Oxnard control area extension and Fillmore, Calif., transition area, and designate a transition area at Oxnard.

Interested persons were afforded an opportunity to participate in the proposed rule making through the submission of comments. All comments received were favorable.

Subsequent to the publication of the notice, it was determined that the operation of the proposed radio beacon at Ventura County Airport, Calif., was suffi-

ciently in doubt to deny designation of a control zone extension. Additionally, the notice stated that Restricted Areas R-2519 and R-2520 would be excluded from the transition area. These restricted areas are designated as joint use areas and should be included in the transition area.

Since the changes are minor and procedural in nature, notice and public procedure thereon are unnecessary and action is taken herein to reflect the changes resulting from the nonoperational status of the radio beacon, and the inclusion of the restricted areas in the transition area. In the interest of clarity, the transition area is described, herein, in a manner different from the description which appeared in the notice. Except for the inclusion of the restricted areas, the transition area is the same.

In consideration of the foregoing, Part 71 of the Federal Aviation Regulations is amended, effective 0001 e.s.t., April 29, 1965, as hereinafter set forth.

1. In § 71.165 (29 F.R. 17557), the Oxnard, Calif., control area extension is revoked.

2. In § 71.181 (29 F.R. 17643), the Fillmore, Calif., transition area is revoked, and the Oxnard, Calif., transition area is designated as follows:

That airspace extending upward from 700 feet above the surface within a 3-mile radius of the Rancho Conejo, Calif., airport (latitude 34°11'47" N., longitude 118°54'59" W.); that airspace within a 7-mile radius of the Point Mugu RBN, excluding the portion within W-289; and that airspace extending upward from 1,200 feet above the surface bounded on the E by longitude 118°50'00" W., on the S by latitude 34°00'00" N., on the W by longitude 120°00'00" W., and on the N by a line extending from latitude 34°20'00" N., longitude 120°00'00" W. to latitude 34°20'00" N., longitude 119°30'00" W. to latitude 34°30'00" N., longitude 119°30'00" W. to latitude 34°30'00" N., longitude 118°50'00" W., excluding the portions within W-289 and W-412; and that airspace extending upward from 5,000 feet MSL bounded on the N by latitude 34°20'00" N., on the E by longitude 120°00'00" W., on the S by latitude 34°00'00" N., and on the W by longitude 120°30'00" W., excluding the portion within Control 1176.

(Secs. 307(a) and 1110 of the Federal Aviation Act of 1958, 49 U.S.C. 1348 and 1510, and Executive Order 10854; 24 F.R. 9565)

Issued in Washington, D.C., on February 26, 1965.

DANIEL E. BARROW,  
Chief, Airspace Regulations  
and Procedures Division.

[F.R. Doc. 65-2287; Filed, Mar. 4, 1965;  
8:45 a.m.]

[Airspace Docket No. 63-CE-80]

## PART 71—DESIGNATION OF FEDERAL AIRWAYS, CONTROLLED AIRSPACE, AND REPORTING POINTS

### Designation of Transition Area and Control Zones and Revocation of a Control Area Extension

#### Correction

In F. R. Doc. 65-2024 appearing in the issue for Saturday, February 27, 1965,

at page 2596, the description for Anderson, Ind. in § 71.181 should read as follows:

ANDERSON, IND.

That airspace extending upward from 700 feet above the surface within a 5-mile radius of Anderson Municipal Airport, Anderson, Ind. (latitude 40°06'30" N., longitude 85°36'55" W.); and within 2 miles each side of the 298° bearing from Anderson Municipal Airport extending from the 5-mile radius to 13 miles NW of the airport.

## Chapter II—Civil Aeronautics Board

### SUBCHAPTER A—ECONOMIC REGULATIONS

[Reg. No. ER-430]

## PART 242—REPORTING RESULTS OF SCHEDULED ALL-CARGO SERVICES

Adopted by the Civil Aeronautics Board at its office in Washington, D.C. on the 2d day of March 1965.

On September 14, 1964, the Board issued a Notice of Proposed Rule Making, EDR-71, Docket 15545, 29 F.R. 13036, in which it proposed an amendment to Part 241 of the Economic Regulations to provide for reporting separately the results of scheduled all-cargo services by all route air carriers except the local service, helicopter, and exclusively intra-Alaskan and intra-Hawaiian air carriers. Comments were submitted by twenty-two combination air carriers in a joint statement of the Air Transport Association, two combination air carriers in individual statements, four all-cargo air carriers, and the Department of Commerce. The stated objective of the proposed amendment was to obtain more detailed information on air freight in general and all-cargo services in particular in order to assist the Board in the discharge of its functions in matters associated with the changing status of air freight and in appraising the burden or contribution of scheduled all-cargo services to overall earnings position.

Because of the strong objections by the twenty-two combination air carriers that the integrity of the Form 41 report, which is primarily a "reliable financial and statistical report," would be destroyed by the introduction of experimental and controversial allocation techniques, the Board has decided that scheduled all-cargo results will not be reported in Form 41 as proposed, but will be separately reported under a new Part 242, adopted hereby. Furthermore, Part 242 will be only a temporary requirement, automatically terminating three years after adoption unless earlier rescinded, to provide necessary all-cargo data until such time as the development of the Board's electronic data processing (EDP) facility will permit derivation of such data from Form 41 reports.

The proposed schedules and instructions have been severely curtailed. For example, new Part 242 does not require the direct assignment of certain balance sheet items and revenues, nor does it prescribe methods for allocating other balance sheet and profit and loss items to the all-cargo services. Instead, Part 242 leaves allocation techniques to the discretion of the carriers, and requires only that a statement of the techniques be filed with the Board. Furthermore, the reports will be filed semi-annually in-

stead of quarterly. The filing date will be 45 days instead of the proposed 40 days after the end of the reporting period.

The Board believes that the nature of the foregoing changes obviates the necessity for further discussion of the carriers' comments except for the following: (1) Caribair requests exclusion from the reporting requirements because of the extremely limited nature of its all-cargo service between Puerto Rico and the Virgin Islands; (2) National asks whether the regulation encompasses all-cargo operations on passenger-configured aircraft as well as cargo-configured aircraft; (3) Slick recommends (a) the establishment of an industry air-freight O & D sampling procedure similar to the Board's passenger O & D survey, and (b) a requirement for reporting available ton-miles of belly freight capacity and belly revenue ton-miles carried; and (4) the Department of Commerce recommends the reporting of tons of mail, express and freight unloaded by stations at destination. These items are discussed below.

(1) The proposed classification of carriers required to report the results of all-cargo services is considered the most appropriate. However, when such a classification would work an undue hardship on an individual carrier, the Board intends to grant exemptions or waivers.

(2) The regulation makes no differentiation as to the configuration of the aircraft on which the cargo is carried; the only specification is that it be a scheduled all-cargo flight. Therefore, "seat-loaded" cargo on a passenger-configured aircraft (the example cited in the carrier's comments) should be reported in the same manner as if carried on an aircraft designed for all-cargo operations.

(3) (a) The question of a cargo O & D survey is outside the scope of this proceeding, but will be given separate consideration at some appropriate time in the future.

(3) (b) and (4) Although reports on belly freight and unloadings at destination would be valuable, reports of these data were not proposed in the Notice and should not be adopted without further study by the Board and opportunity for comment by the industry.

Interested persons have been afforded an opportunity to participate in the making of this rule and all relevant comments have been considered. Accordingly, the Civil Aeronautics Board hereby adopts new Part 242 of the Economic Regulations (14 CFR Part 242), effective April 5, 1965, to read as follows:

- Sec.  
242.1 Applicability.  
242.2 CAB Form 242; filing requirements.  
242.3 Extension of filing time.  
242.4 Statement of allocation procedures.  
242.5 Certification.  
242.6 Schedule B—Invested Capital—Scheduled All-Cargo Services.  
242.7 Schedule P—Operating Statement—Scheduled All-Cargo Services.  
242.8 Schedule T—Aircraft Statistics—Scheduled All-Cargo Services.

**AUTHORITY:** The provisions of this Part 242 issued under sections 204(a) and 407 of the Federal Aviation Act of 1958, 72 Stat. 743, 766; 49 U.S.C. 1324, 1377.

#### § 242.1 Applicability.

(a) This part applies to all route air carriers except local service air carriers, helicopter air carriers, and exclusively intra-Alaskan or intra-Hawaiian air carriers. Upon its own initiative or upon written carrier application, the Board may exempt any air carrier from compliance with this part or waive any provision thereof where it finds that unusual circumstances justify such exemption or waiver.

(b) This part shall expire July 1, 1968, unless earlier rescinded by the Board.

#### § 242.2 CAB Form 242; filing requirements.

(a) Each air carrier subject to this part shall prepare and file in duplicate, semi-annually, CAB Form 242<sup>1</sup> entitled "Report of Scheduled All-Cargo Services" as prescribed herein. The CAB Form 242 report consists of:

- (1) Certification;
- (2) Schedule B—Invested Capital—Scheduled All-Cargo Services;
- (3) Schedule P—Operating Statement—Scheduled All-Cargo Services;
- (4) Schedule T—Aircraft Statistics—Scheduled All-Cargo Services; and
- (5) A statement of the various allocation procedures by which the financial results of scheduled all-cargo services are separated from results for other services.

(b) Schedule B shall be prepared as of June 30 and December 31 of each year, and Schedules P and T shall be prepared for the twelve months ending June 30 and December 31 of each year. The allocation statement shall be filed with the initial report, and with any subsequent report for a period in which the allocation procedure is changed. Form 242 shall be filed (postmarked) with the Board not more than forty-five (45) days after the end of each semi-annual reporting period. The report shall be addressed to the Civil Aeronautics Board, attention of the Bureau of Accounts and Statistics, Washington, D.C., 20428.

#### § 242.3 Extension of filing time.

If circumstances prevent the filing of a report within the prescribed time limit, consideration will be given to the granting of an extension upon receipt of a written request therefor. Such a request must give good and sufficient reason to justify granting the extension, must set forth the date when the report can be filed, and be submitted sufficiently in advance of the due date to permit proper time for consideration and communication to the air carrier of the action taken. Except in cases of emergency, no such request will be entertained which is not received in sufficient time to enable the Board to pass thereon before the prescribed due date. If a request is denied, the air carrier remains subject to the filing requirements to the same extent as if no request for extension of time had been made.

<sup>1</sup> CAB Form 242 may be obtained from the Publications Section, Civil Aeronautics Board, Washington, D.C., 20428.

#### § 242.4 Statement of allocation procedures.

(a) Each air carrier shall submit with its initial report on CAB Form 242 a statement of the various allocation procedures by which the investment in and operating results of scheduled all-cargo services are separated from those of other services. The statement shall clearly and completely describe the bases used in reporting each indicated balance sheet classification on Schedule B—Invested Capital, and each profit and loss classification on Schedule P—Operating Statement.

(b) Whenever allocation procedures are subsequently revised, a supplementary statement shall be filed with the Form 242 report for the period in which such revisions are made, and shall clearly and completely describe the procedures upon which such revised reports are based. The effect of such change in procedures on the current report and reports previously filed shall be clearly and completely described in the supplementary statement.

#### § 242.5 Certification.

The certificate of the officer in charge of the carrier's accounts, executed in duplicate, shall accompany each Form 242 filed with the Board. This certificate is the cover sheet of Form 242 and applies to all schedules and documents filed therewith.

#### § 242.6 Schedule B—Invested Capital—Scheduled All-Cargo Services.

(a) This schedule shall be prepared as of June 30 and December 31 of each year.

(b) Separate sets of this schedule shall be filed for each separate operating entity of the air carrier as prescribed in Part 241 of this chapter.

(c) Data reported on this schedule shall conform with the instructions pertaining to balance sheet classifications within Part 241 of this chapter.

(d) Each indicated asset classification shall be allocated between scheduled all-cargo and other services in accordance with procedures that are submitted with the initial report and with subsequent reports for periods in which procedures are changed, as required by § 242.4.

#### § 242.7 Schedule P—Operating Statement—Scheduled All-Cargo Services.

(a) This schedule shall be prepared for the twelve months ending June 30 and December 31 of each year.

(b) Separate sets of this schedule shall be filed for each separate operating entity of the air carrier as prescribed in Part 241 of this chapter.

(c) Data reported on this schedule shall conform with the instructions pertaining to profit and loss classifications within Part 241 of this chapter.

(d) Each indicated classification of revenues, operating expenses, and income taxes shall be allocated between scheduled all-cargo and other services in accordance with procedures that are submitted with the initial report and with subsequent reports for periods in which procedures are changed, as required by § 242.4.

### § 242.8 Schedule T—Aircraft Statistics—Scheduled All-Cargo Services.

(a) This schedule shall be prepared for the twelve months ending June 30 and December 31 of each year.

(b) Separate sets of this schedule shall be filed for each separate operating entity of the air carrier as prescribed in Part 241 of this chapter.

(c) Data reported on this schedule shall conform with the instructions pertaining to traffic statistics within Part 241 of this chapter.

NOTE: The reporting requirements contained herein have been approved by the Bureau of the Budget in accordance with the Federal Reports Act of 1942.

By the Civil Aeronautics Board.

[SEAL] HAROLD R. SANDERSON,  
Secretary.

[P.R. Doc. 65-2327; Filed, Mar. 4, 1965;  
8:50 a.m.]

## Title 16—COMMERCIAL PRACTICES

### Chapter I—Federal Trade Commission

[Docket No. C-875]

#### PART 13—PROHIBITED TRADE PRACTICES

##### Joyce Sportswear Co. et al.

Subpart—Misbranding or mislabeling: § 13.1185 *Composition*: 13.1185-90 Wool Products Labeling Act. Subpart—Neglecting, unfairly or deceptively, to make material disclosure: § 13.1852 *Formal regulatory and statutory requirements*: 13.1852-80 Wool Products Labeling Act. Subpart—Using misleading name—Goods: § 13.2280 *Composition*: 13.2280-80 Wool Products Labeling Act.

(Sec. 6, 38 Stat. 721; 15 U.S.C. 46. Interpret or apply sec. 5, 38 Stat. 719, as amended, secs. 2-5, 54 Stat. 1128-1130; 15 U.S.C. 45, 69) [Cease and desist order, Joyce Sportswear Co. et al., Gary, Ind., Docket C-875, Jan. 12, 1965]

*In the Matter of Joyce Sportswear Co., a corporation, and Jack Goodman, Willard Wolf, and Florence Goodman, Individually and as Officers of said Corporation*

Consent order requiring Gary, Ind., importers and manufacturers of wool products to cease violating the Wool Products Labeling Act by labeling sweaters as "60 percent wool, 30 percent mohair, and 10 percent nylon" when said sweaters contained substantially different amounts of fibers, and to cease using the term "mohair" in lieu of "wool" on labels without designating the correct percentage of mohair present.

The order to cease and desist, including further order requiring report of compliance therewith, is as follows:

*It is ordered*, That respondents Joyce Sportswear Co., a corporation and its officers, and Jack Goodman, Willard Wolf, and Florence Goodman, individually and as officers of said corporation, and respondents' representatives, agents and employees, directly or through any

corporate or other device, in connection with the introduction or manufacture for introduction into commerce, or the offering for sale, sale, transportation, distribution, or delivery for shipment, or shipment in commerce, of sweaters or other wool products, as "commerce" and "wool product" are defined in the Wool Products Labeling Act of 1939, do forthwith cease and desist from:

Misbranding such products by:

1. Falsely and deceptively stamping, tagging, labeling or otherwise identifying such products as to the character or amount of constituent fibers contained therein.

2. Failing to securely affix to, or place on, each such product, a stamp, tag, label or other means of identification showing in a clear and conspicuous manner each element of information required to be disclosed by section 4(a)(2) of the Wool Products Labeling Act of 1939.

3. Using the term "mohair" in lieu of the word "wool" in setting forth the required fiber content information on labels affixed to wool products without setting forth the correct percentage of the mohair present.

*It is further ordered*, That the respondents herein shall, within sixty (60) days after service upon them of this order, file with the Commission a report in writing setting forth in detail the manner and form in which they have complied with this order.

Issued: January 12, 1965.

By the Commission.

[SEAL] JOSEPH W. SHEA,  
Secretary.

[P.R. Doc. 65-2289; Filed, Mar. 4, 1965;  
8:45 a.m.]

[Docket No. C-876]

#### PART 13—PROHIBITED TRADE PRACTICES

##### Maurice Coat & Suit Manufacturing Co., Inc., et al.

Subpart—Advertising falsely or misleadingly: § 13.30 *Composition of goods*: 13.30-30 Fur Products Labeling Act; § 13.73 *Formal regulatory and statutory requirements*: 13.73-10 Fur Products Labeling Act. Subpart—Invoicing products falsely: § 13.1108 *Invoicing products falsely*: 13.1108-45 Fur Products Labeling Act. Subpart—Misbranding or mislabeling: § 13.1185 *Composition*: 13.1185-30 Fur Products Labeling Act; § 13.1212 *Formal regulatory and statutory requirements*: 13.1212-30 Fur Products Labeling Act; 13.1212-90 Wool Products Labeling Act. Subpart—Neglecting, unfairly, or deceptively, to make material disclosure: § 13.1845 *Composition*: 13.1845-30 Fur Products Labeling Act; § 13.1852 *Formal regulatory and statutory requirements*: 13.1852-35 Fur Products Labeling Act; 13.1852-80 Wool Products Labeling Act. Subpart—Using misleading name: § 13.2280 *Composition*: 13.2280-80 Wool Products Labeling Act.

(Sec. 6, 38 Stat. 721; 15 U.S.C. 46. Interpret or apply sec. 5, 38 Stat. 719, as amended; secs. 2-5, 54 Stat. 1128-1130; sec. 8, 65 Stat. 179;

15 U.S.C. 45, 68, 69f) [Cease and desist order, Maurice Coat & Suit Mfg. Co., Inc., et al., Kansas City, Mo., Docket C-876, Jan. 19, 1965]

*In the Matter of Maurice Coat & Suit Manufacturing Co., Inc., a corporation, and Fashioned Originals, Inc., a Corporation, and Frieda Garfinkel and Arnold H. Garfinkel, Individually and as Officers of Said Corporations*

Consent order requiring manufacturers and wholesalers of wool, fur, and textile fiber products in Kansas City, Mo., to cease violating the Fur Products Labeling Act by falsely labeling artificially colored fur products as natural; failing to use the term "Natural" for furs which were not artificially colored, on labels and in advertisements; and by failing in other respects to comply with labeling, invoicing, and advertising requirements; and to cease violating the Wool Products Labeling Act by omitting required fiber content information on attached labels, and by using the term "Mohair" in lieu of the word "Wool" on affixed labels without giving the correct percentage of mohair present.

The order to cease and desist, including further order requiring report of compliance therewith, is as follows:

*It is ordered*, That respondents Maurice Coat & Suit Manufacturing Co., Inc., a corporation, and its officers, and Fashioned Originals, Inc., a corporation, and its officers, and Frieda Garfinkel and Arnold H. Garfinkel, individually and as officers of the said corporations and respondents' representatives, agents and employees, directly or through any corporate or other device in connection with the introduction, or manufacture for introduction into commerce, or the sale, advertising or offering for sale in commerce, or the transportation or distribution in commerce, of any fur products; or in connection with the manufacture for sale, sale, advertising, offering for sale, transportation or distribution, of any fur product which is made in whole or in part of fur which has been shipped and received in commerce, as the terms "commerce", "fur" and "fur product" are defined in the Fur Products Labeling Act do forthwith cease and desist from:

A. Misbranding fur products by:

1. Representing directly or by implication on labels that the fur contained in any fur product is natural when the fur contained therein is pointed, bleached, dyed, tip-dyed, or otherwise artificially colored.

2. Failing to affix labels to fur products showing in words and in figures plainly legible all of the information required to be disclosed by each of the subsections of section 4(2) of the Fur Products Labeling Act.

3. Failing to set forth on labels the item number or mark assigned to a fur product.

B. Falsely or deceptively invoicing fur products by:

1. Failing to furnish invoices as the term "invoice" is defined in the Fur Products Labeling Act showing in words and figures plainly legible all the information required to be disclosed in each of the subsections of section 5(b)(1) of the Fur Products Labeling Act.

2. Failing to set forth the term "Natural" as part of the information required to be disclosed on invoices under the Fur Products Labeling Act and rules and regulations promulgated thereunder to describe fur products which are not pointed, bleached, dyed, tip-dyed, or otherwise artificially colored.

3. Failing to set forth on invoices the item number or mark assigned to fur products.

C. Falsely or deceptively advertising fur products through the use of any advertisement, representation, public announcement or notice which is intended to aid, promote or assist, directly or indirectly, in the sale, or offering for sale of any fur product, and which:

1. Fails to set forth in words and figures plainly legible all the information required to be disclosed by each of the subsections of section 5(a) of the Fur Products Labeling Act.

2. Sets forth the name or names of any animal or animals other than the name of the animal producing the furs contained in the fur product as specified in the Fur Products Name Guide, and as prescribed by the rules and regulations.

3. Fails to set forth the term "Natural" as part of the information required to be disclosed in advertisements under the Fur Products Labeling Act and the rules and regulations promulgated thereunder to describe fur products which are not pointed, bleached, dyed, tip-dyed, or otherwise artificially colored.

It is further ordered, That respondents Maurice Coat & Suit Manufacturing Co., Inc., a corporation, and its officers, and Fashioned Originals, Inc., a corporation, and its officers, and Frieda Garfinkel and Arnold H. Garfinkel, individually and as officers of said corporations and respondents' representatives, agents and employees, directly or through any corporate or other device, in connection with the introduction or manufacture for introduction into commerce, or the offering for sale, sale, transportation, distribution, delivery for shipment or shipment in commerce, of wool fabric or other wool products, as "commerce" and "wool product" are defined in the Wool Products Labeling Act of 1939, do forthwith cease and desist from misbranding wool products by:

1. Failing to securely affix to, or place on each such product a stamp, tag, label, or other means of identification, showing in a clear and conspicuous manner each element of information required to be disclosed by section 4(a) (2) of the Wool Products Labeling Act of 1939.

2. Using the term "Mohair" in lieu of the word "Wool" on labels affixed to wool products without setting forth the correct percentage of the Mohair present.

It is further ordered, That the respondents herein shall, within sixty (60) days after service upon them of this order, file with the Commission a report in writing setting forth in detail the manner and form in which they have complied with this order.

Issued: January 19, 1965.

By the Commission.

[SEAL] JOSEPH W. SHEA,  
Secretary.  
[F.R. Doc. 65-2290; Filed, Mar. 4, 1965;  
8:45 a.m.]

[Docket No. C-874]

### PART 13—PROHIBITED TRADE PRACTICES

#### Worcester Dusting Mills, Inc. et al.

Subpart—Misbranding or mislabeling: § 13.1185 Composition: 13.1185-80 Textile Fiber Products Identification Act. Subpart—Neglecting, unfairly or deceptively, to make material disclosure: § 13.1852 Formal regulatory and statutory requirements: 13.1852-70 Textile Fiber Products Identification Act.

(Sec. 6, 38 Stat. 721; 15 U.S.C. 46. Interpret or apply sec. 5, 38 Stat. 719, as amended; 72 Stat. 1717; 15 U.S.C. 45, 70) [Cease and desist order, Worcester Dusting Mills, Inc., et al., Worcester, Mass., Docket C-874, Jan. 8, 1965]

In the Matter of Worcester Dusting Mills, Inc., Whittaker Nylon Fibres Corp., and Whittaker Fibres, Inc., Corporations, and Louis P. Pemstein and Bernard L. Pemstein, Individually and as Officers of Said Corporations, and Prescott Textile Co., Inc., a Corporation, and Bernard L. Pemstein, individually and as an Officer of Said Corporation

Consent order requiring Worcester, Mass., affiliated yarn manufacturers to cease violating the Textile Fiber Products Identification Act by falsely labeling, invoicing, and advertising the fiber content of certain yarns, such as labeling "100 percent Nylon" when in fact the product contained substantial amounts of other fibers, by failing to set forth on labels the true generic names of fibers and percentages thereof; and failing to maintain proper records showing the fiber content of textile fiber products manufactured by them.

The order to cease and desist, including further order requiring report of compliance therewith, is as follows:

It is ordered, That respondents Worcester Dusting Mills, Inc., Whittaker Nylon Fibres Corp., and Whittaker Fibres, Inc., corporations, and Louis P. Pemstein and Bernard L. Pemstein individually and as officers of said corporations, and Prescott Textile Co., Inc., a corporation, and Bernard L. Pemstein, individually and as an officer of said corporations, and respondents' representatives, agents and employees, directly or through any corporate or other device, in connection with the introduction, delivery for introduction, manufacture for introduction, sale, advertising, or offering for sale, in commerce, or the transportation or causing to be transported in commerce, or the importation into the United States, of any textile fiber prod-

uct; or in connection with the sale, offering for sale, advertising, delivery, transportation, or causing to be transported, of any textile fiber product which has been advertised or offered for sale in commerce; or in connection with the sale, offering for sale, advertising, delivery, transportation, or causing to be transported, after shipment in commerce, of any textile fiber product, whether in its original state or contained in other textile fiber products, as the terms "commerce" and "textile fiber product" are defined in the Textile Fiber Products Identification Act, do forthwith cease and desist from:

A. Misbranding textile fiber products by:

1. Falsely or deceptively stamping, tagging, labeling, invoicing, advertising, or otherwise identifying such products as to the name or amount of constituent fibers contained therein.

2. Failing to affix labels to such textile fiber products showing each element of information required to be disclosed by section 4(b) of the Textile Fiber Products Identification Act.

It is further ordered, That respondents Worcester Dusting Mills, Inc., Whittaker Nylon Fibres Corp., and Whittaker Fibres, Inc., corporations, and Louis P. Pemstein and Bernard L. Pemstein, individually and as officers of said corporations, and Prescott Textile Co., Inc., a corporation, and Bernard L. Pemstein, individually and as an officer of said corporation, and respondents' representatives, agents, and employees, directly or through any corporate or other device, in connection with the introduction, delivery for introduction, manufacture for introduction, sale, advertising, or offering for sale, in commerce, or the transportation or causing to be transported in commerce, or the importation into the United States of textile fiber products; or in connection with the sale, offering for sale, advertising, delivery, transportation, or causing to be transported, textile fiber products, which have been advertised or offered for sale in commerce; or in the connection with the sale, offering for sale, advertising, delivery, transportation, or causing to be transported, after shipment in commerce, of textile fiber products, whether in their original state or contained in other textile fiber products, as the terms "commerce" and "textile fiber product" are defined in the Textile Fiber Products Identification Act, do forthwith cease and desist from failing to maintain records of fiber content of textile fiber products manufactured by them, as required by section 6(a) of the Textile Fiber Products Identification Act and Rule 39 of the regulations promulgated thereunder.

It is further ordered, That the respondents herein shall, within sixty (60) days after service upon them of this order, file with the Commission a report in writing setting forth in detail the manner and form in which they have complied with this order.

Issued: January 8, 1965.

By the Commission.

[SEAL] JOSEPH W. SHEA,  
Secretary.

[F.R. Doc. 65-2291; Filed, Mar. 4, 1965;  
8:45 a.m.]

## Title 21—FOOD AND DRUGS

### Chapter I—Food and Drug Administration, Department of Health, Education, and Welfare

#### SUBCHAPTER B—FOOD AND FOOD PRODUCTS

[Docket No. FDC-73]

#### PART 36—SHELLFISH

#### Frozen Raw Breaded and Lightly Breaded Shrimp; Definitions and Standards of Identity

In the matter of establishing definitions and standards of identity for frozen raw breaded shrimp and frozen raw lightly breaded shrimp:

Notice of proposed rule making was published in the FEDERAL REGISTER of March 31, 1961 (26 F.R. 2722), setting forth proposals of the National Fisheries Institute, Inc., 1614 Twentieth Street NW., Washington 9, D.C., and the National Shrimp Breeders Association, Inc., 624 South Michigan Avenue, Chicago 5, Ill., representing members who are processors of breaded shrimp, for the establishment of definitions and standards of identity for frozen raw breaded shrimp. An order was published in the FEDERAL REGISTER of May 7, 1963 (28 F.R. 4556), promulgating identity standards for frozen raw breaded shrimp (21 CFR 36.30) and for frozen raw lightly breaded shrimp (21 CFR 36.31). Objections to the order were filed, asserting grounds for a public hearing on several issues, and an announcement was published on July 6, 1963 (28 F.R. 6915) staying the order. In response to the notice in the FEDERAL REGISTER of December 21, 1963 (28 F.R. 13940) and following a notice of postponement published in the issue of January 11, 1964 (29 F.R. 297), a hearing was held.

Based upon the evidence received at the hearing and having given consideration to the written arguments and suggested findings, some of which were adopted in whole or in part and some of which were rejected, the Commissioner of Food and Drugs, under authority delegated to him by the Secretary of Health, Education, and Welfare, published proposed findings of fact, conclusions, and tentative order in the FEDERAL REGISTER of December 22, 1964 (29 F.R. 18175) and invited exceptions thereto. One exception was filed within the time provided and later withdrawn. The Commissioner, pursuant to the authority provided in the Federal Food, Drug, and Cosmetic Act (secs. 401, 701(e), 52 Stat. 1046, 1055 as amended, 70 Stat. 919; 21 U.S.C. 341, 371(e)) and delegated to him by the Secretary of Health, Education, and Welfare (21 CFR 2.90), and on the reliable, probative and substantial evidence in the whole record,

orders the promulgation of the following findings of fact, conclusions, and definitions and standards of identity for the subject foods.

**Findings of fact.**<sup>1</sup> Frozen raw breaded shrimp and frozen raw lightly breaded shrimp are prepared by coating appropriate forms of peeled shrimp with safe and suitable batter and breading ingredients and then freezing. Only the "tail" portion of shrimp is used. The tail portions are prepared in the following forms:

- Split or butterfly, with tail fins remaining and with or without first adjoining shell segment.
- Split or butterfly, tail fins and all shell segments removed.
- Round, unsplit shrimp with tail fins remaining and with or without first adjoining shell segment.
- Round, unsplit shrimp, tail fins and all shell segments removed.
- Pieces of shrimp, tail fins and all shell segments removed.
- Composited units consisting of two or more shrimp pieces or whole shrimp or a combination of both with tail fins and all shell segments removed.

Breaded shrimp is a relatively new commercial food, having been first commercially distributed about 1947 or 1948. Breaded shrimp is prepared from either iced or frozen shrimp or both and from one or more of the so-called white, pink, or brown varieties. Shrimp are obtained from many different parts of the world (R. 151-170, 228, 274; Ex. 2, 27).

2. When frozen raw breaded shrimp first appeared on the market it contained appreciably more shrimp material than breading. Due to many factors, including economics and product acceptability, the percentage of shrimp material in the food decreased. However, a small portion of the production was maintained at a higher percentage of shrimp for those purchasers, primarily volume purchasers, such as institutional users, who wanted such higher shrimp percentage (R. 124, 170, 234).

3. After negotiations with industry, the United States Department of the Interior, through its Fish and Wildlife Service, caused to be published United States Standards for Grades of Frozen Raw Breaded Shrimp with an effective date of March 1, 1958. These standards were recodified and republished on July 1, 1958, by the United States Department of the Interior. Within 2 or 3 years after publication of the grade standards, approximately 85 percent of the production of breaded shrimp was being inspected by the United States Department of the Interior for compliance. Among other requirements, the product description of the standards for grades requires a minimum of 50 percent shrimp material as determined by the procedure set out in the grade standards (R. 608; Ex. 26).

4. The Food and Drug Administration order establishing the definitions and standards of identity for frozen raw

breaded shrimp and frozen raw lightly breaded shrimp invited persons claiming to be adversely affected by such order to submit relevant objections specifying with particularity that part of the order to which objection was taken. In the event a hearing should be required on an issue or issues raised by objectors, they were to be prepared to support such objections at the hearing.

A person claiming to be adversely affected by the order objected to the requirement that frozen raw breaded shrimp contain not less than 50 percent shrimp material. He proposed instead that the minimum shrimp material for the food be set at 60 percent. He also objected because the order did not require the size of the raw shrimp used to be listed on the label; because standards were not established for size based on the number of shrimp per pound; because the order did not require the numerical percentage of breading actually in the food to be declared on the label; because it did not require label statement of the geographic origin of the shrimp; and because it did not limit the time raw frozen shrimp may be held in storage prior to breading.

Others claiming to be adversely affected objected to the order because it did not provide for optional use of alternative names for the food designated as "breaded shrimp pieces"; because it did not provide for the optional use of the alternative designation "breaded round fantail shrimp" for the food designated as "breaded round shrimp"; because it did not specify that size of those large shrimp that the order permitted to be parenthetically designated as "prawns"; and because the method for determination of the percentage of shrimp material in the food included the use of a rubber-tipped glass stirring rod.

The objections were duly noted and set out as issues for the hearing. At the hearing, no objectors or representatives of the objectors, nor any other person supported the objections listed in this finding of fact. Accordingly, there is no basis in the record for changing the order as it concerns these issues (Ex. 2, 4).

5. Some consumers demand breaded shrimp with an appreciably higher proportion of shrimp material than coating. Such lightly breaded shrimp containing not less than 70 percent shrimp material can be prepared. In Federal Specifications, provision is made for the purchase of it and a purchase specification by one of the large grocery chains provides for lightly breaded shrimp with not less than 70 percent shrimp material. However, there was evidence adduced at the hearing that at the 70 percent shrimp material level the present state of the technique of the industry is such that:

a. Only larger size shrimp would satisfactorily lend themselves to being lightly breaded.

b. The coating often shows a number of cracks and voids so that the food would not meet the requirements for Grade A, as set out in the United States Standards for Grades of Frozen Raw Breaded Shrimp.

c. The need for "hand" breading this food increases the price considerably.

<sup>1</sup> The citations following each finding of fact refer to the pages of the transcript of testimony and the exhibits received in evidence at the hearing.

d. Packers produce a 70 percent lightly breaded shrimp only upon a customer's order.

On the other hand, breaded shrimp prepared with not less than 65 percent shrimp material substantially overcomes the problems arising with the 70 percent product. Lightly breaded shrimp at the level of 65 percent shrimp material is recognizably different from ordinary breaded shrimp in which the shrimp material amounts to only slightly more than 50 percent (R. 124, 127, 189-192, 219, 234, 235, 238, 320, 325, 532-535, 574, 597-605, 674-676, 913, 1185-1188, 1241, 1244, 1246, 1249, 1250, 1253-1258; Ex. 2, 6, 20, 29-38).

6. Section 403(f) of the Federal Food, Drug, and Cosmetic Act requires mandatory labeling to be placed on food labels with such prominence and conspicuousness as to render it likely to be read and understood under customary conditions of purchase and use. Section 1.9(a) of Title 21, Code of Federal Regulations, points out that this statutory requirement may be offended if required labeling is not shown "on the part or panel of the label which is presented or displayed under customary conditions of purchase." Frozen raw breaded shrimp is usually packaged and sold in six-sided packages. Two of the rectangular panels opposite to each other each have a much greater surface area than any of the other four panels. The top one of these panels is ordinarily used as the principal display panel. Principal display panels are easily recognized since they usually carry the manufacturer's brand name, the name of the food in large letters, and often a colorful vignette of the food. In boxes of frozen raw breaded shrimp this panel is sometimes referred to as the main or front panel. Designers of labels and manufacturers of the food intend for this panel to be the one displayed at the point of sale in order to catch the purchaser's eye. It is recognized that sometimes more than one panel is intended for display purposes. Section 403(f) of the act and § 1.9(a) of the regulations apply not only to foods for which there have been established standards of identity but also to nonstandardized foods (R. 179, 180, 290-292; Ex. 21, 22, 41-44, 46-49).

7. Many foods have been defined and standards of identity established in accordance with section 401 of the act. Many of the standards require certain optional ingredients to be listed on the label. A few standardized foods have lengthy lists of optional ingredients providing for many, if not all, to be designated for label declaration. Frozen raw breaded shrimp has a coating that may consist of many ingredients. No objections were received to the order establishing the standard as it concerns the coating ingredients and the provision that it shall be mandatory that they all be listed on labels. The length of the listing of optional ingredients used should not preclude its prominent and conspicuous display. There is substantial evidence of record supporting the placement of the optional ingredient listing on the principal display panel or panels comprising the surface of the label usually displayed to the consumer

at the time of purchase. Questions raised concerning the significance and meaning to the consumer of some of the chemical names of certain of the optional ingredients were not sufficient to overcome the need for ready availability of such information to the consumer who seeks such information. The fact that many labels presently used on frozen raw breaded shrimp and other nonstandardized foods do not present the ingredient listing on the principal display panel does not overcome the statutory requirement that the listing be prominent and conspicuous. Evidence of record revealed that the changing of labels or the development of new labels is expensive. However, despite the costs, witnesses revealed that labels are constantly being revised and new labels developed. Some witnesses believed that the order as objected to had required that wherever and as often as the name of the food appeared on the label the ingredient listing must also appear. It was made clear that such listing is to be required only upon the principal display panel (or panels). If the ingredient listing is conspicuously displayed on the principal display panel or panels of the packages of frozen raw breaded shrimp, it is not necessary to require that such labeling immediately precede or follow the name of the food, without intervening written, printed, or graphic matter. It was asserted that it would be difficult to locate and to read the ingredient listing, regardless of position placement on the label, under certain adverse conditions of frost, light, etc. It is not reasonable to conclude that if such adverse conditions sometimes develop it is unnecessary to prescribe the position placement of such listing. On the other hand, it would be reasonable and in the interest of consumers to prescribe the location of the ingredient listing so that under normal and expected conditions of sale such listing may be easily located and read (R. 66, 72, 78, 80, 81, 88, 94, 142, 180, 183, 186, 241-243, 537, 538, 542, 543, 548, 578, 579, 591, 594, 595, 709, 1070, 1071, 1073, 1075-1080, 1083, 1086, 1090, 1091, 1093, 1095, 1097, 1126, 1127, 1130, 1136, 1138, 1145, 1146, 1160, 1161, 1171, 1174; Ex. 2, 41-44, 46-49).

8. A form of frozen raw breaded shrimp is prepared from two or more whole shrimp, that is, the tail portion of the shrimp with all shell and tail fins removed, or pieces of such shrimp, or both. These units are compressed in a mold, frozen, and coated with a batter and breading. Frozen units, prior to coating, may be cut into smaller units. One such product, prepared from blocks, in its finished form is in the shape of fish sticks and is labeled "shrimp sticks." Another such product is prepared from shrimp caught in Alaskan waters. For this latter product the tail portions are peeled, tail fins removed, placed in a mold, and frozen. The frozen composited units of this shrimp material prepared in Alaska are termed "logs." The logs, in frozen form, are shipped to Ponchatoula, La., where they are then sliced perpendicularly to their long axes. The slices are then individually coated with a batter and breading, refrozen,

packaged, and distributed. Each slice consists of many pieces of shrimp. In the approximately two years this product had been on the commercial market prior to the date of hearing, the form and size of the individual serving unit was prepared to resemble that of a "jumbo" shrimp of about "10-15 count." It was asserted that the size of the individual shrimp used is so small that they are unmarketable as single breaded units but do have a commercial market when composited.

The composited units prepared from shrimp caught in Alaskan waters, when breaded, have been sold under the name "Alaskan Breaded Shrimp." There is also on the market a product designated by the manufacturer as "Alaskan Angel Shrimp." This product is packaged frozen and glazed in block form and consists of the individual tail portion of peeled shrimp, tail fins removed. When thawed, the individual uncoated tail portions separate one from another. The witness for the processor stated that the word "Angel" in the name of the food has no meaning or significance. The witness for the packer of the Alaskan products testified that both were prepared from tiny shrimp. However, a size comparison of the pieces of shrimp in the breaded composited units and the single units of glazed shrimp with the size designations found in the United States Standards for Grades of Frozen Raw Headless Shrimp revealed that the composited units and the single units were prepared from shrimp consisting of a preponderance of medium-size shrimp. Shrimp of such size from other areas are often prepared as individual breaded units. The composited units prepared from shrimp caught in Alaskan waters could be formed into many shapes, including that shape and size known as "sticks." Composited units could be made from small or broken shrimp, or both, from any waters where shrimp are obtained and in the same shape and size as the composited units prepared in Alaska. The geographic origin of the shrimp is not sufficient to disclose to the consumer the form of the shrimp units. For example, the food sold as "Alaskan Breaded Shrimp" and "Alaskan Angel Shrimp" are different forms of the food, the former consisting of composited units and the latter consisting of single units. It is reasonable to believe that the uninformed consumer would be confused and unable to differentiate the forms of the two foods from the names presently appearing on the labels. This follows from the manner in which the geographic origin is used in both names as presently applied to the labels and to the lack of labeling to show the form of the units. It would not be in the consumer's interest to provide in standards that foods prepared in composite form from shrimp obtained from different geographic areas shall bear the same name, such as "Alaskan breaded shrimp," with no additional meaningful description. Further, it would be confusing to the consumer for the order to provide for foods prepared in different geographic areas but in the same manner and having the same form to bear different names; for example, "Alaskan Breaded

Shrimp" vs. "Louisiana Breaded Shrimp."

A witness for the Food and Drug Administration testified that personnel of a large chain store have been advertising and selling the composited form of breaded shrimp from Alaska as "jumbo shrimp," without realizing that the units were not single shrimp. The name of the food apparently did not reveal to the sales personnel that the food consisted of composited units. It is not unreasonable to expect that all the various forms of breaded shrimp units encompassed within the order should be indicative of the form of the units, whether it be single split, single round, single pieces, or composited of several whole shrimp or pieces. It would not be contrary to the consumer's interest to provide in the standards that labels may show the geographic origin of the shrimp (R. 634, 641, 644, 646, 650, 652, 655-658, 661-664, 676-678, 681, 682, 686, 689, 699, 1273, 1276-1279, 1283, 1286, 1288, 1289, 1291, 1292, 1294, 1296, 1299-1304; Ex. 2, 20, 23-25, 48, 49, 54, 55, 57-59).

9. In 1958 the United States Department of the Interior published a standard for grades of frozen raw breaded shrimp wherein the product description requires that the finished food contain not less than 50 percent shrimp material. Such requirement has been continued to the date of the hearing and included in the proposal to establish a standard of identity for the food. The method for determining the percentage of shrimp material in the food is incorporated within the grade standard. This method provides for weighing the finished food; removing the coating by means of an agitating water bath; draining and weighing the debreaded shrimp material; and calculating the percentage of shrimp material. To the result obtained from the calculation of shrimp material provision is made for the addition of 5 percent. (For example, if the calculated result for the finished food is 45 percent shrimp material one then adds 5 percent so that the food is now stated to contain 50 percent shrimp material.) A footnote is appended to the calculation in the published grade standard which states, "A tentative correction factor of 5 percent is employed pending completion of definitive studies" (R. 903, 904, 921; Ex. 1, 26).

10. The petitioners proposing the establishment of a standard for frozen raw breaded shrimp provided for a minimum shrimp material content of not less than 50 percent, to be determined in accordance with the method set out in the United States Standards for Grades, including the 5 percent correction factor. Following publication of the proposed standard of identity, the Commissioner of Food and Drugs, after reviewing comments received and considering other information available to him, published the order establishing the definition and standard of identity. In the Commissioner's order, the correction factor was prescribed as plus 2 percent. The change in this value was objected to by interested parties claiming to be adversely affected and was therefore set up as an issue for the hearing.

Some testimony of record would support the complete deletion of a correction factor, particularly in view of the fact that the product is professed to contain not less than 50 percent of shrimp material. However, the question of deleting the correction factor was not an issue for the hearing, and therefore these findings of fact and conclusions restrict themselves to the question of plus 5 versus plus 2. It is readily recognized that any positive adjustment factor favors the packer. It is reasonable to believe that a packer exercising good commercial controls (good controls of processing are available and are being practiced) would minimize processing variations and therefore can easily produce the finished food well within an adjustment factor of plus 2. For some packers who have been producing a frozen raw breaded shrimp with somewhat less than 50 percent shrimp material a slight increase in weight of shrimp material used will make certain that the consumer will receive a finished food, containing not less than 50 percent shrimp material at the time of purchase. It is well established in the processed food industry that with variable raw materials careful producers do not aim for the lower limits of acceptance because of the dangers inherent in such practice. Since all producers of the food would be subject to the same requirement for minimum shrimp material content, and this percentage will be determined in the same manner, none would be placed at a competitive disadvantage by the changes.

Arguments were advanced that reducing the so-called correction factor from plus 5 to plus 2 would increase the costs to the consumer. Although the cost to the consumer for frozen raw breaded shrimp has increased through the years, the production and consumption of the food have increased at a greater rate. It is not reasonable to believe that the question of possibly slightly higher costs being passed on to the consumer in return for the inclusion of more shrimp material is germane to the issue, particularly in view of the fact that many packers are presently supplying foods containing in excess of the 50 percent shrimp material requirement. Additionally, it was argued that small differences in the amount of shrimp material were not recognizable to the consumer and therefore the change from plus 5 to plus 2 is unnecessary in the interest of consumers. Opposed to this was the argument that where consumers were unable to protect themselves it is in this area that the standard serves its purpose best by offering such protection from those packers inclined to substitute cheap breeding for expensive shrimp (R. 225, 260, 456, 613, 614, 779, 782, 879, 896, 897, 919, 964, 973, 974, 983, 993, 997-999, 1030, 1031, 1050, 1199-1201, 1205, 1216, 1217, 1230, 1236, 1237; Ex. 1, 2, 4).

11. A witness testified that studies he had carried out in preparation for the hearing would not support the plus 2 adjustment factor ordered by the Commissioner. This study had not been published nor had it been available prior to the hearing. The witness proposed that the plus 5 be retained. However, refer-

ring to his own studies he stated that such studies were not definitive. An examination of his data and his testimony as a whole revealed many inconsistencies and incompatibilities. One striking segment of his data revealed that of a particular set of 20 samples of frozen raw breaded shrimp 19 were admittedly prepared with less than 50 percent shrimp material. All 20 samples were frozen and stored prior to analysis. Upon analysis for shrimp material content, when plus 5 was added to the result obtained, all 20 samples were reported to contain 50 percent or more of shrimp material. It is readily seen that it would not be in the interest of the consumer to provide for an adjustment factor of plus 5 since, with such factor products intentionally packed to contain less than 50 percent shrimp material would on examination, appear to be in compliance with the shrimp requirement in the standard (R. 439, 733, 757-759, 778, 790, 844, 867, 1201-1204, 1260, 1262; Ex. 40).

12. The record reveals that the correction factor of plus 5 in the United States Standards for Grades of Frozen Raw Breaded Shrimp was both tentative and inadequate to reasonably reflect the shrimp material level in the finished food. As suggested by the footnote to the procedure, the correction factor was not the result of definitive studies. The plus 5 had been included at the time of publication at the request of industry. No witness at the hearing was aware of any work published in support of such plus 5. In fact, it was asserted that the plus 5 was based on admittedly inadequate information (R. 297-299, 963, 994-996, 1195; Ex. 26).

13. Prior to the publication of the Commissioner's order, the Food and Drug Administration was apprised of the details of a study and recommendation by seafood scientists of the United States Department of the Interior, Fish and Wildlife Service, Bureau of Commercial Fisheries, concerning the correction factor. Prior to the hearing, the study and recommendation were reported in the Commercial Fisheries Review published by the Bureau of Commercial Fisheries. It was the only published paper, known to the witnesses at the hearing, on the subject. Substantial testimony concerning the investigations reported supports the following:

a. The plus 5 correction factor was only tentative, pending definitive studies.

b. It is desirable to make the correction factor as small as the accuracy of the method will permit to insure uniformity of product.

c. The tentative correction factor of 5 percent is too large.

d. A change in the correction factor from plus 5 to plus 2 more correctly reflects the shrimp content of the finished food.

e. The accuracy of the method for determining the quantity of shrimp material in the finished food warrants the reduction from plus 5 to plus 2.

The study reflects representative commercial handling of the food from preparation to packaging and storage. The published scientific report is definitive of the subject, which was to determine

the accuracy of the method for testing samples of frozen raw breaded shrimp in order to reveal the shrimp material content as the consumer receives it. The report embodies a scientific approach to the problem of determining the proper correction factor to be applied in the formula for calculating the amount of shrimp material in breaded shrimp. It is authoritative and reliable. An averaging of results in the report would actually support a slightly negative adjustment factor; that is, on an average basis the percentage of shrimp material in the finished food is slightly higher than that put in at the time of preparation. However, since some samples, when tested, showed a slight decrease in percentage of shrimp material it need not be considered contrary to the promotion of honesty and fair dealing in the interest of consumers to provide a safety factor for the producer by means of an adjustment factor of plus 2. One witness testified that the Bureau of Commercial Fisheries had reviewed the paper and determined that from its accuracy and consideration of the conclusions drawn it warranted publication. Further, prior to publication it had been distributed to representative members of industry for comment and no comments were submitted. Another witness testified that he had personal knowledge of the methods and had personally studied the paper and concluded it supported the conclusions drawn. Further, the data reported had been submitted to statistical analysis and found to warrant the conclusions drawn. The method is reproducible and has a low error. The test is capable of being conducted prior to and at time of consumer purchase and properly reflects the percentage of shrimp material in the food. It is in the interest of consumers to lower the correction factor from plus 5 to plus 2 (R. 780-782, 898-900, 921, 962, 1000-1007, 1049-1051, 1196, 1202, 1212-1223; Ex. 27, 51A-51C).

14. The Commissioner's order required that the method for determining the percentage of shrimp material be the same for all forms of the food provided for, and such method was incorporated in the order. However, substantial evidence of record reveals that the method provided for was not easily applicable to the food in composited form. A witness of the U.S. Department of the Interior testified that the method incorporated in the U.S. Standards for Grades of Frozen Raw Breaded Fish Portions would better reflect the shrimp material content in composited units of raw breaded shrimp. Such method is also provided for in the Federal Specification which covers this item of food (R. 261, 262, 680, 914-916, 1012; Ex. 20, 52).

**Conclusions.** On the basis of the foregoing findings of fact and taking into consideration the weight of substantial evidence of the entire record, the following conclusions are drawn:

1. Certain objections to the order, which were set up as issues for the hearing, are rejected because the objectors failed to support their objections at the hearing. These objections had been submitted in opposition to the order because:

a. The minimum shrimp material content of frozen raw breaded shrimp should be changed to require a minimum of 60 percent shrimp material.

b. The size of raw shrimp used should be required for label declaration.

c. The order should establish standards for size based on the number of shrimp per pound.

d. Mandatory label declaration of the percentage of breading actually in the package of food should be required.

e. Mandatory label declaration of geographic origin of the shrimp used should be provided for.

f. The order should impose a requirement setting forth the maximum time that shrimp may remain in storage prior to being coated with a batter and breading.

g. Provision should be included for optional use of alternative names for the food designated as "breaded shrimp pieces."

h. The standard should provide for the optional use of an alternative designation "breaded round fantail shrimp" for the food designated as "breaded round shrimp."

i. The standard should include a specification for the size of shrimp that may be parenthetically further designated as "prawns."

j. The method for determining the percentage of shrimp material in the finished food should not provide for the

use of a rubber-tipped glass stirring rod.

The order as it relates to the above objections stands as promulgated.

2. The food designated as frozen raw lightly breaded shrimp shall contain not less than 65 percent shrimp material.

3. All safe and suitable coating ingredients are provided for optional use without specific listing in the regulation with certain exceptions. The consumer is unable to determine from a reading of the regulation what specific optional ingredients are permitted. Therefore, the label declaration of optional coating ingredients used in the preparation of the food should appear prominently and conspicuously on the principal panel or panels of the label used for display to the consumer at time of purchase.

4. The food prepared from the tail portion of shrimp from which all shell segments and tail fins are removed and wherein two or more whole shrimp, or pieces of shrimp, or both, are formed and pressed into composite units prior to coating are designated as "Breaded shrimp -----," the blank to be filled in with the words or phrase that accurately describe the shape or form, but which is not misleading. For example, if in the shape of fish sticks the food shall be designated as "Breaded shrimp sticks."

5. The percentage of shrimp material in frozen raw breaded shrimp, other than composited units, shall be calculated as follows:

$$\text{Percent shrimp material} = \frac{\text{Weight of debreaded sample}}{\text{Weight of sample}} \times 100 + 2$$

6. The method for determining the percentage of shrimp material in frozen raw breaded shrimp in the form of composited units shall be in accordance with the method prescribed in the United States Standards for Grades of Frozen Raw Breaded Fish Portions (50 CFR 266.21(f)).

On the basis of the foregoing findings of fact and conclusions drawn therefrom, it is concluded that it will promote honesty and fair dealing in the interest of consumers to establish definitions and standards of identity as follows:

**§ 36.30 Frozen raw breaded shrimp; identity; label statement of optional ingredients.**

(a) Frozen raw breaded shrimp is the food prepared by coating one of the optional forms of shrimp specified in paragraph (c) of this section with safe and suitable batter and breading ingredients as provided in paragraph (d) of this section. The food is frozen.

(b) The food tests not less than 50 percent of shrimp material as determined by the method prescribed in paragraph (g) of this section, except that if the shrimp are composite units the method prescribed in paragraph (h) of this section is used.

(c) The term "shrimp" means the tail portion of properly prepared shrimp of commercial species. Except for composite units, each shrimp unit is individually coated. The optional forms of shrimp are:

(1) Fantail or butterfly: Prepared by splitting the shrimp; the shrimp are

peeled, except that tail fins remain attached and the shell segment immediately adjacent to the tail fins may be left attached.

(2) Butterfly, tail off: Prepared by splitting the shrimp; tail fins and all shell segments are removed.

(3) Round: Round shrimp, not split; the shrimp are peeled, except that tail fins remain attached and the shell segment immediately adjacent to the tail fins may be left attached.

(4) Round, tail off: Round shrimp, not split; tail fins and all shell segments are removed.

(5) Pieces: Each unit consists of a piece or a part of a shrimp; tail fins and all shell segments are removed.

(6) Composite units: Each unit consists of two or more whole shrimp or pieces of shrimp, or both, formed and pressed into composite units prior to coating; tail fins and all shell segments are removed; large composite units, prior to coating, may be cut into smaller units.

(d) The batter and breading ingredients referred to in paragraph (a) of this section are the fluid constituents and the solid constituents of the coating around the shrimp. These ingredients consist of suitable substances which are not food additives as defined in section 201(s) of the Federal Food, Drug, and Cosmetic Act; or if they are food additives as so defined, they are used in conformity with regulations established pursuant to section 409 of the act. Batter and breading ingredients that perform a useful function are regarded as suitable, except that artificial flavorings,

artificial sweeteners, artificial colors, and chemical preservatives, other than those provided for in this paragraph, are not suitable ingredients of frozen raw breaded shrimp. Chemical preservatives that are suitable are:

(1) Ascorbic acid, which may be used in a quantity sufficient to retard development of dark spots on the shrimp; and

(2) The antioxidant preservatives listed in § 121.101(d)(2) of this chapter that may be used to retard development of rancidity of the fat content of the food, in amounts within the limits prescribed by that section.

(c) The label shall name the food, as prepared from each of the optional forms of shrimp specified in paragraph (c)(1) to (6), inclusive, of this section, and following the numbered sequence of such subparagraph, as follows:

(1) "Breaded fantail shrimp." The word "butterfly" may be used in lieu of "fantail" in the name.

(2) "Breaded butterfly shrimp, tail off."

(3) "Breaded round shrimp."

(4) "Breaded round shrimp, tail off."

(5) "Breaded shrimp pieces."

(6) Composite units:

(i) If the composite units are in a shape similar to that of breaded fish sticks the name is "Breaded shrimp sticks"; if they are in the shape of meat cutlets, the name is "Breaded shrimp cutlets."

(ii) If prepared in a shape other than that of sticks or cutlets, the name is "Breaded shrimp \_\_\_\_\_," the blank to be filled in with the word or phrase that accurately describes the shape, but which is not misleading.

In the case of the names specified in subparagraphs (1) through (5) of this paragraph, the words in each name may be arranged in any order, provided they are so arranged as to be accurately descriptive of the food. The word "prawns" may be added in parentheses immediately after the word "shrimp" in the name of the food if the shrimp are of large size; for example, "Fantail breaded shrimp (prawns)." If the shrimp are from a single geographic area, the adjectival designation of that area may appear as part of the name; for example, "Breaded Alaskan shrimp sticks."

(f) The names of the optional ingredients used, as provided for in paragraph (d) of this section, shall be listed on the principal display panel or panels of the label with such prominence and conspicuousness as to render them likely to be read and understood by the ordinary individual under customary conditions of purchase. If a spice that also imparts color is used, it shall be designated as "spice and coloring," unless the spice is designated by its specific name. If ascorbic acid is used to retard development of dark spots on the shrimp, it shall be designated as "Ascorbic acid added as a preservative" or "Ascorbic acid added to retard discoloration of shrimp." If any other antioxidant preservative, as provided in paragraph (d) of this section, is used, such preservative shall be designated by its common name followed by the statement "Added as a preservative."

(g) The method for determining percentage of shrimp material for those forms specified in paragraph (c)(1) through (5) of this section is as follows:

(1) *Equipment needed.* (i) Two-gallon container, approximately 9 inches in diameter.

(ii) Two-vaned wooden paddle, each vane measuring approximately 1 3/4 inches by 3 3/4 inches.

(iii) Stirring device capable of rotating the wooden paddle at 120 r.p.m.

(iv) Balance accurate to 0.01 ounce (or 0.1 gram).

(v) U.S. Standard sieve No. 20, 12-inch diameter.<sup>1</sup>

(vi) U.S. Standard sieve, 1/2-inch sieve opening, 12-inch diameter.<sup>1</sup>

(vii) Forceps, blunt points.

(viii) Shallow baking pans.

(ix) Rubber-tipped glass stirring rod.

(2) *Procedure.* (i) Weigh the sample to be debreaded. Fill the container three-fourths full of water at 70° F.-80° F. Suspend the paddle in the container, leaving a clearance of at least 5 inches below the paddle vanes, and adjust speed

to 120 r.p.m. Add shrimp and stir for 10 minutes. Stack the sieves, the 1/2-inch mesh over the No. 20, and pour the contents of the container onto them. Set the sieves under a faucet, preferably with spray attached, and rinse shrimp with no rubbing of flesh, being careful to keep all rinsings over the sieves and not having the stream of water hit the shrimp on the sieve directly. Lay the shrimp out singly on the sieve as rinsed. Inspect each shrimp and use the rubber-tipped rod and the spray to remove the breaded material that may remain on any of them, being careful to avoid undue pressure or rubbing, and return each shrimp to the sieve. Remove the top sieve and drain on a slope for 2 minutes, then remove the shrimp to weighing pan. Rinse contents of the No. 20 sieve onto a flat pan and collect any particles other than breaded (i.e., flesh and tail fins) and add to shrimp on balance pan and weigh.

(ii) Calculate percent shrimp material:

$$\text{Percent shrimp material} = \frac{\text{Weight of debreaded sample}}{\text{Weight of sample}} \times 100 \pm 2$$

(h) The method for determining percentage of shrimp material for composite units, specified in paragraph (c)(6) of this section, is as follows:

(1) *Equipment needed.* (i) Water bath (for example a 3 liter to 4 liter beaker).

(ii) Balance accurate to 0.1 gram.

(iii) Clip tongs of wire, plastic, or glass.

(iv) Stop-watch or regular watch readable to a second.

(v) Paper towels.

(vi) Spatula, 4-inch blade with rounded tip.

(vii) Nut picker.

(viii) Thermometer (immersion type) accurate to  $\pm 2^\circ$  F.

(ix) Copper sulfate crystals ( $\text{CuSO}_4 \cdot 5\text{H}_2\text{O}$ ).

(2) *Procedure.* (i) Weigh all composite units in the sample while they are still hard frozen.

(ii) Place each composite unit individually in a water bath that is maintained at 63° F.-86° F., and allow to remain until the breaded becomes soft and can easily be removed from the still frozen shrimp material (between 10 seconds to 80 seconds for composite units

held in storage at 0° F.). If the composite units were prepared using batters that are difficult to remove after one dipping, redip them for up to 5 seconds after the initial debreading and remove residual batter materials.

[NOTE: Several preliminary trials may be necessary to determine the exact dip time required for "debreading" the composite units in a sample. For these trials only, a saturated solution of copper sulfate (1 pound of copper sulfate in 2 liters of tap water) is necessary. The correct dip time is the minimum time of immersion in the copper sulfate solution required before the breaded can easily be scraped off: Provided, That the "debreaded" units are still solidly frozen and only a slight trace of blue color is visible on the surface of the "debreaded" shrimp material.]

(iii) Remove the unit from the bath; blot lightly with double thickness of paper toweling; and scrape off or pick out coating from the shrimp material with the spatula or nut picker.

(iv) Weigh all the "debreaded" shrimp material.

(v) Calculate the percentage of shrimp material in the sample, using the following formula:

$$\text{Percent shrimp material} = \frac{\text{Weight of debreaded shrimp sample}}{\text{Weight of sample}} \times 100$$

#### § 36.31 Frozen raw lightly breaded shrimp; identity; label statement of optional ingredients.

Frozen raw lightly breaded shrimp complies with the provisions of § 36.30, except that it contains not less than 65 percent of shrimp material, as determined by the method prescribed in

<sup>1</sup> The sieves shall comply with the specifications for wire cloth and sieve frames in "Standard Specifications for Sieves," published March 1, 1940, in L.C. 584 of the U.S. Department of Commerce, National Bureau of Standards.

§ 36.30 (g) or (h), as appropriate, and that in the name prescribed the word "lightly" immediately precedes the words "breaded shrimp."

*Effective date.* With the exception hereinafter set out, this order shall become effective 90 days from the date of its publication in the FEDERAL REGISTER. Subject to the condition that the labels used name the optional ingredients, the provision in § 36.30(f) requiring that these names are to be listed on the principal display panel or panels shall not become effective until December 31, 1965.

(Secs. 401, 701(e), 52 Stat. 1046, 1055 as amended, 70 Stat. 919; 21 U.S.C. 341, 371(e))

Dated: February 26, 1965.

GEO. P. LARRICK,  
Commissioner of Food and Drugs.

[F.R. Doc. 65-2303; Filed, Mar. 4, 1965;  
8:46 a.m.]

#### SUBCHAPTER C—DRUGS

#### PART 141a—PENICILLIN AND PENICILLIN-CONTAINING DRUGS; TESTS AND METHODS OF ASSAY

##### Sodium Cloxacillin Monohydrate

###### Correction

In F.R. Doc. 65-2085, appearing at page 2597 of the issue for Saturday, February 27, 1965, the following correction is made in the sixth sentence of § 141a.118(f): In each instance, "μ" should read "mμ".

#### PART 141a—PENICILLIN AND PENICILLIN-CONTAINING DRUGS; TESTS AND METHODS OF ASSAY

#### PART 146a—CERTIFICATION OF PENICILLIN AND PENICILLIN-CONTAINING DRUGS

##### Sodium Ampicillin

Under the authority provided in the Federal Food, Drug, and Cosmetic Act (sec. 507, 59 Stat. 463 as amended; 21 U.S.C. 357) and delegated to the Commissioner of Food and Drugs by the Secretary of Health, Education, and Welfare (21 CFR 2.90), Parts 141a and 146a are amended, to provide for the certification of sodium ampicillin, by adding the following new sections:

##### § 141a.123 Sodium ampicillin.

(a) *Potency.* Use either of the following methods; however, the results obtained from the method in subparagraph (1) of this paragraph shall be conclusive:

(1) *Bioassay.* Dissolve an accurately weighed sample in sufficient 0.1M potassium phosphate buffer, pH 8.0, to give a stock solution of convenient concentration; and also, if it is packaged for dispensing, reconstitute as directed in the labeling, transfer the entire contents of each vial to a 250-milliliter volumetric flask, and dilute to volume with 0.1M potassium phosphate buffer, pH 8.0. Mix well and proceed as directed in § 141a.111 (a) (1).

(2) *Iodometric assay.* Prepare the sample as described in subparagraph (1) of this paragraph, except use 1 percent phosphate buffer, pH 6.0, in lieu of pH 8.0 buffer. Mix well and proceed as directed in § 141a.111 (a) (2).

If it is packaged for dispensing, its content of ampicillin is satisfactory if it contains not less than 90 percent and not more than 115 percent of the number of milligrams of ampicillin that it is represented to contain.

(b) *Sterility.* Proceed as directed in § 141.2 of this chapter, using either method described in § 141.2(e) (1) and (2). If using the method described in § 141.2(e) (2), use medium B in lieu of medium A.

(c) *Toxicity.* Proceed as directed in § 141a.4, except administer a test dose of 0.5 milliliter of a sterile distilled water solution containing 40 milligrams of ampicillin per milliliter.

(d) *Pyrogens.* Proceed as directed in § 141a.3, except administer a test dose of 1 milliliter per kilogram of a sterile distilled water solution containing 20 milligrams of ampicillin per milliliter.

(e) *Moisture.* Proceed as directed in § 141a.26(e).

(f) *pH.* Proceed as directed in § 141a.5(b), using an aqueous solution containing 10 milligrams of ampicillin per milliliter.

(g) *Crystallinity.* Proceed as directed in § 141a.5(c).

(h) *Sodium ampicillin content.* Transfer an accurately weighed 400- to 500-milligram sample to a 125-milliliter Erlenmeyer flask; add 3 milliliters of formic acid, 50 milliliters of glacial acetic acid, 3 drops of a 0.5 percent solution of crystal violet in glacial acetic acid (as an indicator), and titrate with 0.1N perchloric acid in glacial acetic acid to the first clear green end-point. Calculate the sodium ampicillin content on the anhydrous basis, with each milliliter of 0.1N perchloric acid being equivalent to 18.75 milligrams of sodium ampicillin.

(i) *Identity.* The infrared spectrum of a 1 percent mixture in a potassium bromide pellet shows well-defined absorption maxima at 5.65, 5.99, 6.21, 6.62, 7.19, 7.63, 8.93, and 14.5 microns.

##### § 146a.119 Sodium ampicillin.

(a) *Standards of identity, strength, quality, and purity.* Sodium ampicillin is the crystalline sodium salt of D(-)-α-aminobenzyl penicillin. It is so purified and dried that:

(1) It contains not less than 845 micrograms of ampicillin per milligram on an anhydrous basis.

(2) It is sterile.

(3) It passes the toxicity test.

(4) It is nonpyrogenic.

(5) Its moisture content is not more than 2 percent.

(6) Its pH in an aqueous solution containing 10 milligrams per milliliter is not less than 8.0 nor more than 10.0.

(7) Its sodium ampicillin content is not less than 90 percent.

(b) *Packaging.* In all cases the immediate container shall be a tight container as defined by the U.S.P., and shall be of such composition as will not cause any change in the strength, quality, or purity of the contents beyond any limit therefor in applicable standards, except that minor changes so caused that are normal and unavoidable in good packaging, storage, and distribution practice shall be disregarded. If it is packaged for dispensing, it shall be in immediate containers of colorless transparent glass, and each such container shall contain either 250 milligrams or 500 milligrams of ampicillin.

(c) *Labeling.* In addition to the requirements of § 148.3 of this chapter, if the drug is packaged for dispensing its labeling shall bear a statement to the effect that solutions prepared from the drug should be used immediately. Its expiration date is 12 months.

(d) *Requests for certification, check tests and assays; samples.* In addition to the requirements of § 146.2 of this chapter, each such request shall contain:

(1) Results of tests and assays on the batch for potency, sterility, toxicity, pyrogens, moisture, pH, sodium ampicillin content, crystallinity, and identity.

(2) Samples required:

(i) If the batch is packaged for repackaging or for use in the manufacture of another drug:

(a) For all tests except sterility: 10 packages, each containing approximately 300 milligrams.

(b) For sterility testing: 20 packages, each containing approximately 300 milligrams.

(ii) If the batch is packaged for dispensing:

(a) For all tests except sterility: A minimum of 10 immediate containers.

(b) For sterility testing: 20 immediate containers collected at regular intervals throughout each filling operation.

(c) *Fees.* \$5.00 for each package or immediate container submitted in accordance with paragraph (d) (2) (i) (a) and (ii) (a) of this section; \$12.00 for all packages or immediate containers in the sample submitted in accordance with paragraph (d) (2) (i) (b) and (ii) (b) of this section and \$24.00 for all packages or immediate containers in the sample submitted for any repeat sterility test, if necessary, in accordance with § 141.2(f) of this chapter.

This order provides for the certification of sodium ampicillin, an antibiotic drug that has been basically determined to be safe and efficacious for its intended use. It would be contrary to the public interest to delay in providing for the certification of this drug, and I so find; therefore notice and public procedure are not prerequisites to the promulgation of this order.

*Effective date.* This order shall become effective on the date of its publication in the FEDERAL REGISTER.

(Sec. 507, 59 Stat. 463 as amended; 21 U.S.C. 357)

Dated: February 26, 1965.

JOHN L. HARVEY,  
Deputy Commissioner  
of Food and Drugs.

[F.R. Doc. 65-2304; Filed, Mar. 4, 1965;  
8:47 a.m.]

## Title 30—MINERAL RESOURCES

### Chapter II—Geological Survey, Department of the Interior

#### PART 229—REGULATIONS FOR OBTAINING FEDERAL ASSISTANCE IN FINANCING EXPLORATIONS FOR MINERAL RESOURCES, EXCLUDING ORGANIC FUELS, IN THE UNITED STATES, ITS TERRITORIES AND POSSESSIONS

##### Transfer of Regulations and Revocation of Chapter III

The Office of Minerals Exploration and its functions are transferred to the Ge-

ological Survey by Secretary's Order No. 2886 dated February 26, 1965, published in the *FEDERAL REGISTER*.<sup>1</sup> Accordingly, the following amendments are made to Title 30—Mineral Resources:

1. Chapter III is revoked.

2. Part 301 is transferred to Chapter II and redesignated as Part 229. Sections 301.1-301.15 are redesignated as §§ 229.1-229.15, respectively.

3. The words "Office of Minerals Exploration" wherever they appear are changed to read "Geological Survey."

No further changes are made in the text of Part 229, which is republished below. Since these amendments are made because of a change in the internal organization of the Department, notice and public procedure thereon have been deemed unnecessary and the amendments shall become effective upon publication in the *FEDERAL REGISTER*.

STEWART L. UDALL,  
Secretary of the Interior.

FEBRUARY 26, 1965.

# **PART 229—REGULATIONS FOR OBTAINING FEDERAL ASSISTANCE IN FINANCING EXPLORATIONS FOR MINERAL RESERVES, EXCLUDING ORGANIC FUELS, IN THE UNITED STATES, ITS TERRITORIES AND POSSESSIONS**

## **GENERAL PROVISIONS**

| Sec.  | Purpose.                               |
|-------|----------------------------------------|
| 229.1 | Definitions.                           |
| 229.2 | Eligible minerals or mineral products. |
| 229.3 | Operator's property rights.            |
| 229.4 | Form and filing.                       |
| 229.5 | Information required.                  |
| 229.6 | Criteria.                              |
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## **APPLICATIONS**

| Sec.  | Purpose.                               |
|-------|----------------------------------------|
| 229.1 | Definitions.                           |
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| 229.3 | Operator's property rights.            |
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| 229.6 | Criteria.                              |
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## **EXPLORATION CONTRACTS**

| Sec.  | Purpose.                               |
|-------|----------------------------------------|
| 229.1 | Definitions.                           |
| 229.2 | Eligible minerals or mineral products. |
| 229.3 | Operator's property rights.            |
| 229.4 | Form and filing.                       |
| 229.5 | Information required.                  |
| 229.6 | Criteria.                              |
| 229.7 | Approval.                              |

**AUTHORITY:** The provisions of this Part 229 issued under sec. 2(e), 72 Stat. 700; 30 U.S.C. 642(e).

## **GENERAL PROVISIONS**

### **§ 229.1 Purpose.**

The regulations in this part govern the obtaining of Federal financial assistance in conducting exploration for mineral reserves, excluding organic fuels, in the United States, its territories or possessions.

### **§ 229.2 Definitions.**

As used in this part:

(a) "Exploration" means the search, including related development work, for new or unexplored mineral deposits within a specified area or parcel of ground where geologic conditions favor their occurrence. Exploration using recognized and sound procedures, including standard geophysical and geochemical methods, may be conducted from the surface or underground to obtain pertinent geological and mineralogical information. The work shall not go beyond a reasonable delineation and sampling of a mineral deposit, and shall not be conducted primarily for mining or preparation for mining.

(b) "Operator" means an individual partnership, corporation, or other legal entity that is party to an exploration contract with the Government.

(c) "Secretary" means the Secretary of the Interior, or his authorized representative.

(d) "Government" and "Federal" means the United States of America.

(e) "Commercial sources" means banking institutions or other private sources of credit.

### **§ 229.3 Eligible minerals or mineral products.**

The following are eligible for Government financial assistance:

|                            |                                 |
|----------------------------|---------------------------------|
| Antimony.                  | Mica (strategic).               |
| Asbestos.                  | Molybdenum.                     |
| Bauxite.                   | Monazite.                       |
| Beryllium.                 | Nickel.                         |
| Bismuth.                   | Platinum Group Metals.          |
| Cadmium.                   | Quartz Crystal (piezoelectric). |
| Chromite.                  | Rare Earths.                    |
| Cobalt.                    | Rutile.                         |
| Columbium.                 | Selenium.                       |
| Corundum.                  | Silver.                         |
| Diamond (industrial).      | Sulphur.                        |
| Fluorspar.                 | Talc (block steatite).          |
| Gold.                      | Tantalum.                       |
| Graphite (crucible flake). | Tellurium.                      |
| Iron Ore.                  | Thorium.                        |
| Kyanite (strategic).       | Tin.                            |
| Manganese.                 | Uranium.                        |
| Mercury.                   |                                 |

### **§ 229.4 Operator's property rights.**

The operator must have and preserve the right to possession of the land (as owner, lessee, or otherwise) for a term at least sufficient to complete the exploration work. (See § 229.11(f) regarding repayment.) The operator shall devote the land and all existing improvements, facilities, buildings, installations, and appurtenances necessary to the purposes of the exploration.

## **APPLICATIONS**

### **§ 229.5 Form and filing.**

An application for Federal financial assistance must be submitted in quadruplicate on forms which may be obtained from and filed with either:

Geological Survey,  
Department of the Interior,  
Washington 25, D.C.

or Field Officers, Geological Survey. The regions which they serve and their Post Office addresses are as follows:

Region I: Alaska, Idaho, Montana, Oregon, and Washington—Geological Survey, South 157 Howard Street, Spokane 4, Washington. Applicants for Alaska projects may file applications with the United States Bureau of Mines, P.O. Box 2688, Juneau, Alaska, for forwarding to the Field Officer, Region I.

Region II—California, Hawaii, and Nevada—Geological Survey, 113 Custom House, 555 Battery Street, San Francisco 11, California.

Region III: Arizona, Colorado, Kansas, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Utah, and Wyoming—Geological Survey, Federal Center, Denver 25, Colorado.

Region IV: Alabama, Arkansas, Connecticut, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, West Virginia, and Wisconsin—Geological Survey, Room 11, Post Office Building, Knoxville 1, Tennessee.

### **§ 229.6 Information required.**

(a) Each application shall fully describe the proposed exploration, and shall include all detailed data called for by the application form. The Secretary may require the filing of additional information, including financial statements, reports, maps, or charts, and exhibits and such physical on-site examination as he deems necessary.

(b) The application must include evidence that funds for the exploration work are unavailable on reasonable terms from commercial sources. The evidence shall include information as to the commercial sources to which applications were made, the amounts requested, and the reasons why loans were not obtained.

(c) The application must include a certification by the applicant that he would not normally undertake the exploration at his sole expense under current conditions or circumstances.

### **§ 229.7 Criteria.**

The following factors will be considered and weighed in passing upon applications:

(a) The geologic probability of a significant discovery being made.

(b) The estimated cost of the exploration in relation to the size and grade of the potential deposit.

(c) The plan and method of conducting the exploration.

(d) The accessibility of the project area.

(e) The background and operating experience of the applicant.

(f) The applicant's title or right to possession of the property.

### **§ 229.8 Approval.**

If the application is approved, the Government may enter into an exploration contract with the applicant upon terms and conditions which the Secretary deems necessary and appropriate as set forth in the contract form furnished by the Government.

## **EXPLORATION CONTRACTS**

### **§ 229.9 Government participation.**

The Government will contribute not more than fifty (50) percent of the total allowable costs of the exploration specified by the terms of all contracts, except those for silver for which the Government's contribution will not be more than seventy-five (75) percent.

### **§ 229.10 Allowable costs.**

(a) The Government, to the extent provided in the exploration contract, will contribute to:

<sup>1</sup> See P.R. Doc. 65-2295, in Notices Section, *infra*.

(1) The necessary, reasonable, and direct actual costs of performing the exploration, including the costs of: labor, supervision, and outside consultants; operating materials, supplies, and equipment; initial rehabilitation or repair of existing buildings, installations, fixtures, and operating equipment; construction of buildings, fixed improvements, and installations; repairs and maintenance of operating equipment; analytical work, accounting, payroll and sales taxes, and employers' liability or employees' compensation insurance; payments by the operator to independent contractors; and such other necessary, reasonable, and direct actual costs as may be approved by the Government in the course of work; and

(2) The fixed unit costs agreed upon by the operator and the Government in terms of units of work to be performed (per foot of drifting, per foot of drilling, etc.) in lieu of actual costs.

(b) The Government will not contribute to costs incurred before the date of the contract, or to costs of or incident to:

(1) Acquiring, owning or possessing land with any existing improvements, facilities, buildings, installations, and appurtenances, or the depreciation and depletion thereof;

(2) General overhead, corporate management, interest and taxes (other than payroll and sales taxes);

(3) Insurance (other than employers' liability or employees' compensation insurance); and

(4) Damages to persons or property (other than authorized repair to or replacement of equipment or other property used in the work).

#### § 229.11 Repayment by the operator.

(a) If the Secretary considers that as a result of the exploration, mineral or metal production from the area covered by the contract may be possible, he shall so certify in writing to the operator within the time specified in the contract.

(b) When the Secretary determines not to certify, he shall promptly so notify the operator provided the operator has completed all obligations under the contract.

(c) The operator shall pay the Government a royalty on all minerals or metals produced from the land described in the contract and any other royalty as may be provided therein:

(1) Irrespective of any certification of possible production—from the date of the contract to the date of notice that certification will not be made, or until the total amount contributed by the Government with interest is fully repaid, whichever occurs first; or

(2) Irrespective of any certification of possible production—if the Secretary, deeming it necessary and in the public interest, enters into an agreement to provide for royalty payments.

(3) If a certification of possible production is issued—for a period of ten years (or other period fixed by the con-

tract not exceeding 25 years) from the date of the contract, or until the total amount contributed by the Government, with interest, is fully repaid, whichever occurs first.

(d) The Government's royalty shall be 5 percent of the "gross proceeds" (including any bonuses, premiums, allowances, or other benefits) from the production sold, in the form sold (ore, concentrate, metal, or equivalent) at the point of delivery (the f.o.b. point) except, that charges of the buyer (not the operator or producer) arising in the regular course of his business, and shown on the buyer's settlement sheets as deductions (such as treatment processes performed by the buyer, sampling and assaying to determine the value of the production sold, and freight payable by the buyer to a carrier (not the operator or producer) shall be allowed as deductions in arriving at the "gross proceeds" as that term is used in this section. No costs of the operator or producer are deductible in arriving at the "gross proceeds" as that term is used in this section. The term "treatment processes", as used in this paragraph means those processes (such as milling, concentrating, smelting, refining, or equivalent) applied to the crude ore or other production after it is extracted from the ground to put it into a commercially marketable form, excluding fabricating or manufacturing.

(e) If any production (ore, concentrate, metal, or equivalent) remains unsold or is not used by the operator or producer in integrated manufacturing or fabricating operations (for instance, if it is stockpiled) after the lapse of six months from the date it is extracted from the ground, the Government, at its option, may require the computation and payment of its royalty on the value of such production in the form (ore, concentrate, metal, or equivalent) it is in at the time the Government elects to exercise its option. If any production is used by the operator or producer in integrated manufacturing or fabricating operations, the Government's royalty on such production shall be computed on the "value" thereof in the form in which and at the time when it is used. "Value" as used in this section means what is or would be gross income from mining operations for percentage depletion purposes in Federal income tax determination, or the market value, whichever is greater.

(f) (1) To secure the payment of the Government's royalty, the contract shall provide for a lien upon the operator's interest in the land, upon any production from the land, and upon any interests in the land other than the operator's interest. However, the Secretary may accept the undertaking of a surety company or third person in lieu of a lien upon interests in the land other than the operator's interest. In circumstances where the Secretary deems it to be in the public interest, the requirement for a lien or other undertaking concerning

interests in land, other than the lien upon the operator's interest, may be omitted from the Contract.

(2) If the operator is not the producer (for example, if the operator transfers or does not retain his interest in production or in the land), the operator shall remain liable for the payment of the Government's royalty.

(g) If, in any particular case, the Secretary finds that it would be more economical or practicable to compute the Government's royalty upon some basis other than "gross proceeds" or "value", as these terms are used in this section, or upon the production in some form other than that in which it is sold, held, or used in integrated operations, he may agree with the operator, either in the original exploration contract or by an amendment thereof, upon some other basis of computation.

(h) Nothing in this part shall be construed as imposing any obligation on the operator to engage in any mining or production operations.

(i) The Secretary may modify and adjust the terms and conditions of any contract to reduce the amount and terms of any royalty payment when he shall determine that such action is necessary and in the public interest.

#### § 229.12 Interest on amount of Government participation.

(a) Simple interest is calculated from the first day of the month following the dates Federal funds are made available until the period specified for royalty payments expires or until the amount of Federal funds contributed, including interest, is fully repaid, whichever occurs first.

(b) The rate of interest shall be fixed by the Secretary at not less than the rate the Department of the Interior would be required to pay if it borrowed from the Treasury, plus a two percent interest charge in lieu of the actual cost to the Government of administering the contract.

(c) Paragraphs (a) and (b) of this section shall not be construed to increase the rate of royalty or to extend the period for which the royalty is payable as set forth in § 229.11.

#### § 229.13 Limitation on the amount of Government participation.

No single contract shall authorize Government participation in excess of \$250,000.

#### § 229.14 Government not obligated to buy.

Nothing in this part or in any contract entered into pursuant to this part shall be construed as imposing any obligation on the Government to purchase any materials mined or produced from the land which is the subject of such contract.

#### § 229.15 Title to and disposition of property.

Facilities, buildings, fixtures, equipment, or other items or groups of items



| <i>Country or Locality</i>                                                                                                                                                                                                                     | <i>Basis: Through<br/>intermediary of—</i> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| New Caledonia                                                                                                                                                                                                                                  | France.                                    |
| New Guinea, Territory of                                                                                                                                                                                                                       | New South Wales.                           |
| New Hebrides                                                                                                                                                                                                                                   | Do.                                        |
| Nicobar Islands                                                                                                                                                                                                                                | Great Britain.                             |
| Niger, Republic of                                                                                                                                                                                                                             | France.                                    |
| Nigeria                                                                                                                                                                                                                                        | Great Britain.                             |
| Nissyros (Dodecanese Islands)                                                                                                                                                                                                                  | Greece.                                    |
| Niue or Savage Island                                                                                                                                                                                                                          | New Zealand.                               |
| Norfolk Island                                                                                                                                                                                                                                 | New South Wales.                           |
| North Borneo (see Malaysia)                                                                                                                                                                                                                    | Great Britain.                             |
| Northern Rhodesia (see Zambia)                                                                                                                                                                                                                 | South Africa, Re-<br>public of.            |
| Nyasaland (see Malawi)                                                                                                                                                                                                                         | Great Britain.                             |
| Oceania, French (See Polynesia)                                                                                                                                                                                                                | France.                                    |
| Oubangui-Chari (See Central African Republic)                                                                                                                                                                                                  | Do.                                        |
| Pakistan (including Baluchistan)                                                                                                                                                                                                               | Great Britain.                             |
| Papeete, Tahiti                                                                                                                                                                                                                                | France.                                    |
| Papua (Territory of)                                                                                                                                                                                                                           | New South Wales.                           |
| Penrhyn Island                                                                                                                                                                                                                                 | New Zealand.                               |
| Persian Gulf Ports (see Bahrein, Muscat, Qatar and Trucial States)                                                                                                                                                                             | Great Britain.                             |
| Polynesia, French                                                                                                                                                                                                                              | France.                                    |
| Makatea, Ralatea, Society Islands, Tahiti.                                                                                                                                                                                                     |                                            |
| Portugal                                                                                                                                                                                                                                       | Great Britain.                             |
| Portuguese East Africa (Mozambique)                                                                                                                                                                                                            | South Africa, Re-<br>public of.            |
| Qatar (Doha and Umm Said)                                                                                                                                                                                                                      | Great Britain.                             |
| Ralatea Polynesia                                                                                                                                                                                                                              | France.                                    |
| Rarotonga (Cook Islands)                                                                                                                                                                                                                       | New Zealand.                               |
| Reunion Island                                                                                                                                                                                                                                 | France.                                    |
| Rhodes (Dodecanese Islands)                                                                                                                                                                                                                    | Greece.                                    |
| Rhodesia (Northern and Southern)                                                                                                                                                                                                               | South Africa, Re-<br>public of.            |
| Rodrigues, Island of                                                                                                                                                                                                                           | Great Britain.                             |
| Saar                                                                                                                                                                                                                                           | Germany.                                   |
| Sabah (see Malaysia)                                                                                                                                                                                                                           | Great Britain.                             |
| Saint Helena                                                                                                                                                                                                                                   | Do.                                        |
| Saint Pierre and Miquelon                                                                                                                                                                                                                      | France.                                    |
| Samoa (Western)                                                                                                                                                                                                                                | New Zealand.                               |
| Samos (Dodecanese Islands)                                                                                                                                                                                                                     | Greece.                                    |
| San Marino, Republic of                                                                                                                                                                                                                        | Italy.                                     |
| Sarawak (see Malaysia)                                                                                                                                                                                                                         | Great Britain.                             |
| Savage Islands (Niue)                                                                                                                                                                                                                          | New Zealand.                               |
| Senegal, Republic of                                                                                                                                                                                                                           | France.                                    |
| Seychelles Islands                                                                                                                                                                                                                             | Great Britain.                             |
| Sierra Leone                                                                                                                                                                                                                                   | Do.                                        |
| Bauya, Biama, Bo, Bontho, Cline Town, Daru, Freetown, Hangha, Kabala, Kallahun, Kambia, Kenema, Lunsar, Magburaka (Mak-ump), Makeni, Mano, Moyamba, Pendembu, Port Loko, Punjehun, Rotifunk, Segbwema, Sembehun, Sumbuya, Waterloo.            |                                            |
| Singapore (see Malaysia)                                                                                                                                                                                                                       | Great Britain.                             |
| Society Islands, French Polynesia                                                                                                                                                                                                              | France.                                    |
| Solomon Island                                                                                                                                                                                                                                 | New South Wales.                           |
| Somali Republic (Northern Region only)                                                                                                                                                                                                         | Great Britain.                             |
| Soudanese Republic (See Mali, Republic of)                                                                                                                                                                                                     | France.                                    |
| Southern Rhodesia (see Rhodesia)                                                                                                                                                                                                               | South Africa, Re-<br>public of.            |
| Southwest Africa                                                                                                                                                                                                                               | Do.                                        |
| Sudan, French (See Mali Republic)                                                                                                                                                                                                              | France.                                    |
| Swaziland                                                                                                                                                                                                                                      | South Africa, Re-<br>public of.            |
| Tahiti (French Polynesia)                                                                                                                                                                                                                      | France.                                    |
| Tanganyika (see Tanzania)                                                                                                                                                                                                                      | Great Britain.                             |
| Tanzania (see Tanganyika and Zanzibar Protectorate)                                                                                                                                                                                            | Do.                                        |
| Tchad (See Chad Republic)                                                                                                                                                                                                                      | France.                                    |
| Togo                                                                                                                                                                                                                                           | Do.                                        |
| Anécho, Atakpamé, Lomé, Palimé.                                                                                                                                                                                                                |                                            |
| Tonga Islands (or Friendly Islands)                                                                                                                                                                                                            | New South Wales.                           |
| Trucial States (Abu Dhabi, Dubai and Sharjah)                                                                                                                                                                                                  | Great Britain.                             |
| Uganda                                                                                                                                                                                                                                         | Do.                                        |
| Arua, Bombo, Busambatia, Butiaba, Entebbe, Fort Portal, Gulu, Hoima, Iganga, Jinja, Kabale, Kaberamaido, Kakira, Kalliro, Kam-pala, Kamuli, Kitgum, Lira, Lugazi, Masaka, Masindi, Mbale, Mbarara, Mubende, Nanasagali, Ngora, Soroti, Tororo. |                                            |
| Upper Volta                                                                                                                                                                                                                                    | France.                                    |
| Western Samoa                                                                                                                                                                                                                                  | New Zealand.                               |
| Zambia                                                                                                                                                                                                                                         | South Africa, Re-<br>public of.            |
| Zanzibar Protectorate (see Tanzania)                                                                                                                                                                                                           | Great Britain.                             |

NOTE: The corresponding Postal Manual section is 171.29.

(R.S. 161, as amended; 5 U.S.C. 22, 39 U.S.C. 501, 506, 507, 5101-5105)

LOUIS J. DOYLE,  
General Counsel.

[F.R. Doc. 65-2310; Filed, Mar. 4, 1965; 8:48 a.m.]

# Proposed Rule Making

## DEPARTMENT OF AGRICULTURE

### Consumer and Marketing Service

[7 CFR Part 1013]

[Docket No. AO-286-A7]

## MILK IN SOUTHEASTERN FLORIDA MARKETING AREA

### Decision on Proposed Amendments to Tentative Marketing Agreement and Order

Pursuant to the provisions of the Agricultural Marketing Agreement Act of 1937, as amended (7 U.S.C. 601 et seq.), and the applicable rules of practice and procedure governing the formulation of marketing agreements and marketing orders (7 CFR Part 900), a public hearing was held at Fort Lauderdale, Fla., on September 24, 1964, pursuant to notice thereof issued on September 11, 1964 (29 F.R. 12979).

Upon the basis of the evidence introduced at the hearing and the record thereof, the Deputy Administrator on January 27, 1965 (30 F.R. 1048; F.R. Doc. 65-1068) filed with the Hearing Clerk, United States Department of Agriculture, his recommended decision containing notice of the opportunity to file written exceptions thereto.

The material issues, findings and conclusions, rulings, and general findings of the recommended decision (30 F.R. 1048; F.R. Doc. 65-1068) are hereby approved and adopted and are set forth in full herein subject to the following modification: The sixth paragraph in issue 1 is revised.

The material issues on the record of the hearing relate to:

1. Pooling requirements for distributing plants;
2. Announcing prices on 3.5-percent butterfat basis;
3. Allocating other source milk to Class IV.

4. Pro rata assignment of unregulated milk; and  
5. Rate of payment on unpriced milk.  
*Findings and conclusions.* The following findings and conclusions on the material issues are based on evidence presented at the hearing and the record thereof:

1. *Pooling requirements for distributing plants.* The pooling requirement that a distributing plant's minimum route distribution in the marketing area be 20 percent of its receipts during the month should be changed to 10 percent. The additional requirement that such a plant have at least 50 percent of its receipts utilized in Class I milk should not be changed at this time.

A change in the minimum Class I sales in the marketing area that a distributing plant must have to pool was proposed by the principal producer association in the market and was supported by handlers. This proposal would pool any distribut-

ing plant which had minimum route distribution in the marketing area of 10 percent of its receipts during the month or an average of 1,500 pounds of Class I sales per day, whichever is less. It is claimed that requiring a plant to dispose of at least 20 percent of its receipts on routes in the marketing area is no longer a proper provision under Order 13 in light of present day marketing practices resulting from improvements in dairy processing, dairy marketing, and transportation technology.

Maintaining the present provision in the order could result in exempting from full regulation a plant from which substantial Class I sales are made in the marketing area. A number of military installations within the Order 13 marketing area are outlets for substantial quantities of Class I milk. They represent potential outlets for the seasonal surplus milk from distributing plants not under a Federal order. The contract for a large military installation could represent, on the other hand, less than 20 percent of the total quantity of milk handled at a plant holding such a contract. Moreover, sales made on weekends through chain stores in the marketing area also could involve large quantities of milk even though not necessarily representing as much as 20 percent of a plant's total receipts. Retaining the present 20 percent in-area pooling requirements for distributing plants would permit the operator of a large plant to supply military contracts in the marketing area while remaining exempt from full regulation. Such a condition could have a disruptive effect on the Order 13 market.

The proposal to include as pool plants all plants which disposed of 1,500 pounds or more of Class I milk in the marketing area should not be adopted. Requiring a distributing plant to become fully pooled if its Class I sales in the marketing area were less than 10 percent of its total receipts but averaged at least 1,500 pounds daily could result in pooling a relatively large plant that had a negligible proportion of Class I sales in the marketing area. Such a plant would not have a significant association with the Order 13 market and could better be handled as a partially regulated distributing plant. Moreover, 1,500 pounds daily is only about one-tenth of 1 percent of total sales in the market. It is not apparent such small amounts need to be brought under regulation in order to preserve orderly marketing conditions in this market when they represent less than 10 percent of the plant's receipts.

In view of the above, it is concluded that Class I sales of 10 percent of a handler's receipts distributed in the marketing area is an appropriate and reasonable basis for establishing minimum standards. Permitting a distributing plant to dispose of more than 10 percent of its receipts inside the Order 13 marketing area represents too great a quan-

tity of milk to be subject only to the regulation generally provided for a fringe area operator. Conversely, fully regulating a plant distributing less than 10 percent of its receipts inside the marketing area would cause plants only incidentally associated with the market to become pool plants.

The proposal to increase the percent of a distributing plant's receipts that must be utilized as Class I as a requirement for pooling from 50 to 60 percent should not be adopted. Proponents stated that most distributing plants in Florida and adjacent States dispose of at least 60 percent of their milk in Class I.

The factor of 50 percent is primarily used as a basis of differentiating between a supply plant and a bottling plant in order to apply the separate pooling criteria to each type. A plant which has more than half of its milk as Class I is clearly a distributing type plant. Raising the factor to 60 percent would not serve to clarify this definition.

Producers contend that increasing to 60 percent of receipts the Class I sales that a distributing plant must have to pool would minimize the risk of unreasonable pool dilution. The purpose of the pooling requirements in an order is to determine which plants shall be pooled. It is not the function of the pooling requirements to influence the supply or utilization of milk in the pool. The appropriate supply of milk and its utilization are achieved through adjustments in the class prices.

Because all producer milk must be fully regulated regardless of where it is sold, it is not feasible to differentiate, for the purpose of regulation, between handlers' Class I sales inside and outside the marketing area. Otherwise, the effect of the order would be nullified and the orderly marketing process jeopardized.

If only his "in-area" sales were subject to classification, pricing and pooling, a regulated handler with Class I sales both inside and outside the marketing area could assign any value he chose to his outside sales. He thereby could reduce his average cost of all of his Class I milk below that of other regulated handlers having all, or substantially all, of their Class I sales within the marketing area. In short, unless all milk of such a handler is fully regulated under the order, he in effect would not be subject to effective price regulation. The absence of effective classification, pricing and pooling of such milk would disrupt orderly marketing conditions within the regulated marketing area and would lead to a complete breakdown of the order. If a pool handler were free to value a portion of his milk at any price he chooses, it would be impossible to enforce uniform prices to all fully regulated handlers or a uniform basis of payments to the producers who supply the market.

It is essential, therefore, that the order price all the producer milk received at a

pool plant regardless of the point of disposition.

Limited quantities (as provided) of Class I milk may be sold within the regulated marketing area from plants not under any Federal order. There is, of course, no way to treat such unregulated milk uniformly with regulated milk other than to regulate it fully. Nevertheless, it has been concluded that the application of "partial" regulation to plants having less association than required for market pooling would not jeopardize marketing conditions within the regulated marketing area. Official notice is taken of the June 19, 1964, decision (29 P.R. 9001) supporting amendments to several orders, including the Southeastern Florida order.

The operator of this partially regulated plant is afforded the option of: (1) Paying an amount equal to the difference between the Class I price and the weighted average value of producer milk with respect to all Class I sales made in the marketing area, (2) purchasing at the Class I price under any Federal order sufficient Class I milk to cover his limited disposition within the marketing area, or (3) paying his dairy farmers an amount not less than the value of all their milk computed on the basis of the classification and pricing provisions of the order (the latter representing an amount equal to the order obligation for milk which is imposed on fully regulated handlers).

While all fluid milk sales of the partially regulated plant are not necessarily priced on the same basis as fully regulated milk, the provisions described are, however, adequate under most circumstances to prevent sales of milk not fully regulated (pooled) from adversely affecting operation of the order and the fully regulated milk.

2. *Announcing prices on 3.5 percent butterfat basis.* Class prices and uniform prices under the Southeastern Florida order should be announced on a 3.5 percent butterfat basis.

A proposal was made that the butterfat test of milk on which basic prices under the Southeastern Florida order are announced be changed from 4.0 to 3.5 percent. It was stated that this would provide for price announcements under the order on the same basis as virtually all other Federal order markets and would assist in price comparisons with other markets.

Price determinations and announcements based on a common basic butterfat test would assist the industry in a better understanding of announced market prices. The preparation and analysis of statistical material comparing intermarket price relationships, which is often needed in public hearings and for other governmental and industry purposes, would be facilitated. Comparable series of milk prices would be readily available for the Department's program for publishing dairy industry statistics. A uniform basis of price announcement in all regulated markets is important to these purposes.

The representative of four regulated handlers testified that they had no objection to this proposal but opposed any change that would result in increasing

the Class I price, even fractionally. For example, the September 1964, price of \$6.65 for milk containing 4.0 percent butterfat would, on a 3.5 percent basis, be \$6.275. Handlers contended that the \$6.275 price should not be adjusted to \$6.28.

It is more practicable to announce the Class I price to the nearest cent than to carry it out fractionally. This can best be accomplished by providing that the Class I price, after being adjusted by the supply-demand factor, be rounded to the nearest cent. At the present time, the standard utilization percentage in the supply-demand formula is adjusted by 1.5 cents for each point of deviation from that percentage. This results in a computed supply-demand adjustment, before rounding, in an amount ending in a full cent or half cent. The practice in the market has been to increase any half cent resulting from a supply-demand adjustment computation to the higher full cent. The deletion in the supply-demand formula of the provision "rounding any fraction of a cent to a whole cent" and providing for such a phrase in the final step of the Class I price computation would appropriately equate the Class I price for milk containing 3.5 butterfat with the level now provided in the order. The basic present Class I price of \$7.00 would be converted to the 3.5 percent butterfat basis of \$6.625 (the difference of 37.5 cents is the differential of 7.5 times 5).

The conforming changes necessary for announcing prices on a 3.5 instead of a 4.0 percent butterfat basis are provided in the attached order. In this connection, official notice is taken of the fact that certain provisions in section 1013.50 (class prices) of the order are no longer applicable and are deleted. In paragraph (a) of that section, this includes the language "And provided further, That for the period through May 1962, the supply-demand adjustment computed pursuant to paragraph (c) of this section shall not exceed plus or minus 40 cents", and in paragraph (b) (1), the following plants have been closed and their inclusion in the list enumerated therein is no longer appropriate: Borden Co., Mount Pleasant, Mich.; Carnation Co., Sparta, Mich.; Pet Milk Co., Wayland, Mich.; Borden Co., Orfordville, Wis.; Carnation Co., Oconomowoc, Wis.; and Pet Milk Co., New Glarus, Wis.

3. *Allocating other source milk to Class IV.* The sequence of allocating fluid milk products to the various classes should be modified. Also, Class IV should be included in the classes to which bulk fluid milk products received from other order plants are prorated pursuant to the allocation provisions of the order. Such receipts that are subject to prorata allocation are now assigned only to Classes I, II and III milk.

Except in limited instances (involving proration of milk received from unregulated supply plants to all the handler's classes of utilization) the present order provides for the allocation of only producer milk to the available Class IV utilization of the handler while certain other source receipts (not allocated to Class I) are allocated in sequence be-

ginning with Class III and then to the Class II utilization of the handler. The important sources of unregulated milk or milk products so allocated to Class III or Class II are fluid milk products for which Grade A certification is not established, milk from unidentified sources and milk from producer-handlers under this or any other order.

Class IV is all milk, the skim milk portion of which is dumped or disposed of for livestock feed or fertilizer. Relatively small quantities of milk under the order are utilized in this class. Of the 507 million pounds of milk in the Order 13 pool in 1963, only 5 million pounds (0.9 percent) was Class IV. The Class IV price, which averaged \$3.07 in 1963, was 52 cents below the average Class III price of \$3.59.

In order to avoid according this preferential treatment to the other source milk currently assigned in sequence beginning with Class III, the allocation sequence for such other source milk as well as for producer milk should begin with Class IV milk. Similarly, in order that bulk receipts from other order plants may be accorded appropriate allocation in relation to producer milk, the procedure currently provided in the order for the prorata allocation of such receipts over Classes I, II and III should be modified so that such allocation will embrace all the classes. The changes provided herein were requested by producers and were unopposed by handlers.

4. *Pro rata assignment of unregulated milk.* The proportion of unregulated milk that may be assigned pro rata with producer milk should not be changed.

The present allocation provisions allow full proration of unregulated milk up to the point where such proration gives a handler a 25 percent total reserve over his Class I requirements (the allowable quantity on which proration applies is computed by multiplying a handler's total Class I sales by 125 percent). Any additional unregulated milk is assigned to available Class III and Class II. As proposed elsewhere in this decision, such additional unregulated milk would be assigned first to Class IV and then to Class III and Class II. Producers proposed that the 25 percent reserve factor be reduced to 10 percent.

The provision for limited proration of unregulated milk became effective August 1, 1964. The discussion of this matter was included in the June 19, 1964, decision, of which official notice has been taken. That decision recognizes that some handlers may require more or less reserve milk than is represented by the 125 percent factor, depending on the particular operations in their plants. The factor was adopted, however, to accommodate the varying circumstances in which individual handlers might need supplemental milk supplies.

The principal testimony in support of the need for lowering the reserve requirement at this time was that the Southeastern Florida market maintains a lower reserve than is represented by the present factor. In this connection, the June 19 decision recognizes that many Federal order markets will maintain more or less reserve than is represented by the reserve factor (which is a common factor applied

to all orders) depending on such variables as seasonal fluctuations in supply and demand, the number and size of regulated handlers, and the actions of co-operatives and handlers in allocating supplies among plants and disposing of surplus milk. However, since the reserve factor applies to individual handlers rather than to the market as a whole, we may not rely solely on a particular market's utilization in determining an appropriate limit for the proration of unregulated milk.

At the time of the hearing, the revised allocation provision on unregulated milk had been in effect for little more than one month. In this situation, it cannot be ascertained whether the present provision will cause inequities as indicated by proponents. Since evidence is lacking concerning specific marketing problems under these provisions, we may not reasonably conclude that the provisions will not work satisfactorily in the Southeastern Florida market.

Producers acknowledge that disorderly marketing conditions have not yet been caused by the revised provisions, but they expressed the belief that the order should be amended at this time to avoid future marketing problems.

5. *Rate of payment on unpriced milk.* The provisions for payments on nonpool milk disposed of as Class I milk on routes in the Southeastern Florida marketing area and on nonpool milk purchased by a Southeastern Florida regulated plant should not be changed.

At the present time, a nonpool, or partially regulated, handler disposing of Class I milk in the Southeastern Florida marketing area has the options of:

(a) Showing that total payment for his total dairy farm milk supply has been at least as much as his obligation at the class prices if his plant were fully regulated. (This amount may be paid entirely to his dairy farmers or may be in part to his dairy farmers and in part into the producer-settlement fund.)

(b) Showing that he has purchased Class I milk priced under some Federal order in an amount at least equivalent to his total Class I sales within the area.

(c) Making a payment into the producer-settlement fund on his Class I sales in the market at the difference between the Class I and the uniform price; or

(d) Electing any combination of (b) and (c).

On unregulated milk purchased by a regulated handler and allocated to his Class I use, a payment at the difference between the Class I and uniform price applies.

Proposals were offered by producers which would change the rate of payment available in option (c) above and the rate applicable to unregulated milk allocated to Class I in a regulated plant to the difference between the Class I and Class III price. Testimony of regulated handlers at the hearing supported a Class I minus Class II payment on unregulated milk.

Prior to the Supreme Court's decision in the Lehigh Valley-Suncrest case, the order provided for payments on unregulated milk used in the Class I market at

the difference between the Class I and the Class II or Class III price, respectively, depending on whether the milk originated from sources within or outside the State of Florida.

The decision (of which official notice was previously taken) on which the present payment provisions are based, recognizes the possibility that these payments might not remove all of the competitive advantage that unregulated milk might have on entering a regulated market. However, the decision concludes that in view of the Supreme Court's decision in the Lehigh Valley case and in the absence of evidence concerning specific instances wherein unregulated milk was purchased at a price less than the uniform price, a rate based on the difference between the Class I and uniform prices should be used.

The principal testimony offered at the hearing was designed to show the competitive advantage that could accrue to a handler using unregulated milk for Class I uses under the present provisions. It was stated that a payment based on the difference between the Class I and uniform price would remove little of the competitive advantage that such milk has when used for Class I purposes in the Southeastern Florida market. This would result, it was claimed, because of the wide difference between the uniform price and surplus price in the high utilization market of Southeastern Florida.

A handler electing to make a payment at the difference between the Class I and the uniform price on unregulated milk disposed of for Class I use in the Order 13 marketing area would have a competitive advantage over fully regulated handlers at any time such unregulated milk could be delivered to the market at less than the Order 13 uniform price. For 1963, the average uniform price for milk of four percent butterfat was \$6.43 per hundredweight. The comparable class prices for the year were: Class I, \$6.77; Class II, \$4.49; and Class III, \$3.59.

Although the testimony submitted by proponents showed several potential sources of unregulated milk, there have been no actual movements into the Southeastern Florida market since the past compensatory payment provisions were suspended on January 1, 1963. They indicated, nevertheless, that unregulated milk from these sources could be purchased for sale in the Southeastern Florida market at less than the Order 13 uniform price. One such source, they indicated, would be the surplus of nearby fluid markets which, in the absence of an alternative fluid outlet, would command only a surplus milk price. They stated that the Order 13 market would be an especially attractive outlet for operating cooperatives in nearby markets operating under the State of Florida's individual-handler pooling regulations, since such cooperatives could return to their own producers anything over the surplus price realized on sales in the market. Another indicated source is milk priced under a regulation of the Florida Milk Commission and disposed of to military installations in the Southeastern Florida market. The full Class I price

established by the Commission does not apply to such military sales.

In this respect, however, the situation has not changed since this matter was considered at the hearing held in January 1963. At that hearing, the evidence presented in support of a Class I minus surplus payment on unregulated milk also was largely speculative and referred to potential rather than actual sources of such milk. In view of the continued lack of evidence of disorder on this basis, there are no grounds for changing the rate of payment on unregulated milk at this time.

It should be pointed out that the proposed changes in the pooling requirements discussed above should provide an additional safeguard against unregulated milk entering the market at a competitive advantage over fully regulated milk. However, if future conditions indicate that the present provisions are not adequately protecting the regulation, the matter can be submitted for further consideration at a hearing.

*Rulings on proposed findings and conclusions.* Briefs and proposed findings and conclusions were filed on behalf of certain interested parties. These briefs, proposed findings and conclusions and the evidence in the record were considered in making the findings and conclusions set forth above. To the extent that the suggested findings and conclusions filed by interested parties are inconsistent with the findings and conclusions set forth herein, the requests to make such findings or reach such conclusions are denied for the reasons previously stated in this decision.

*General findings.* The findings and determinations hereinafter set forth are supplementary and in addition to the findings and determinations previously made in connection with the issuance of the aforesaid order and of the previously issued amendments thereto; and all of said previous findings and determinations are hereby ratified and affirmed, except insofar as such findings and determinations may be in conflict with the findings and determinations set forth herein.

(a) The tentative marketing agreement and the order, as hereby proposed to be amended, and all of the terms and conditions thereof, will tend to effectuate the declared policy of the Act;

(b) The parity prices of milk as determined pursuant to section 2 of the Act are not reasonable in view of the price of feeds, available supplies of feeds, and other economic conditions which affect market supply and demand for milk in the marketing area, and the minimum prices specified in the proposed marketing agreement and the order, as hereby proposed to be amended, are such prices as will reflect the aforesaid factors, insure a sufficient quantity of pure and wholesome milk, and be in the public interest; and

(c) The tentative marketing agreement and the order, as hereby proposed to be amended, will regulate the handling of milk in the same manner as, and will be applicable only to persons in the respective classes of industrial and commercial activity specified in, a marketing

agreement upon which a hearing has been held.

**Rulings on exceptions.** In arriving at the findings and conclusions, and the regulatory provisions of this decision, each of the exceptions received was carefully and fully considered in conjunction with the record evidence pertaining thereto. To the extent that the findings and conclusions, and the regulatory provisions of this decision are at variance with any of the exceptions, such exceptions are hereby overruled for the reasons previously stated in this decision.

**Marketing agreement and order.** Annexed hereto and made a part hereof are two documents entitled respectively, "Marketing Agreement Regulating the Handling of Milk in the Southeastern Florida Marketing Area", and "Order Amending the Order Regulating the Handling of Milk in the Southeastern Florida Marketing Area", which have been decided upon as the detailed and appropriate means of effectuating the foregoing conclusions.

It is hereby ordered, That all of this decision, except the attached marketing agreement, be published in the FEDERAL REGISTER. The regulatory provisions of said marketing agreement are identical with those contained in the order as hereby proposed to be amended by the attached order which will be published with this decision.

**Determination of representative period.** The month of December 1964 is hereby determined to be the representative period for the purpose of ascertaining whether the issuance of the attached order, as amended and as hereby proposed to be amended, regulating the handling of milk in the Southeastern Florida marketing area, is approved or favored by producers, as defined under the terms of the order, as amended and as hereby proposed to be amended, and who, during such representative period, were engaged in the production of milk for sale within the aforesaid marketing area.

Signed at Washington, D.C., on March 1, 1965.

GEORGE L. MEHREN,  
Assistant Secretary.

*Order Amending the Order Regulating the Handling of Milk in the Southeastern Florida Marketing Area*

#### § 1013.0 Findings and determinations.

The findings and determinations hereinafter set forth are supplementary and in addition to the findings and determinations previously made in connection with the issuance of the aforesaid order and of the previously issued amendments thereto; and all of said previous findings and determinations are hereby ratified and affirmed, except insofar as such findings and determinations may be in conflict with the findings and determinations set forth herein.

(a) Findings upon the basis of the hearing record. Pursuant to the provisions

<sup>1</sup> This order shall not become effective unless and until the requirements of § 900.14 of the rules of practice and procedure governing proceedings to formulate marketing agreements and marketing orders have been met.

sions of the Agricultural Marketing Agreement Act of 1937, as amended (7 U.S.C. 601 et seq.), and the applicable rules of practice and procedure governing the formulation of marketing agreements and marketing orders (7 CFR Part 900), a public hearing was held upon certain proposed amendments to the tentative marketing agreement and to the order regulating the handling of milk in the Southeastern Florida marketing area. Upon the basis of the evidence introduced at such hearing and the record thereof, it is found that:

(1) The said order as hereby amended, and all of the terms and conditions thereof, will tend to effectuate the declared policy of the Act;

(2) The parity prices of milk, as determined pursuant to section 2 of the Act, are not reasonable in view of the price of feeds, available supplies of feeds, and other economic conditions which affect market supply and demand for milk in the said marketing area, and the minimum prices specified in the order as hereby amended, are such prices as will reflect the aforesaid factors, insure a sufficient quantity of pure and wholesome milk, and be in the public interest; and

(3) The said order as hereby amended, regulates the handling of milk in the same manner as, and is applicable only to persons in the respective classes of industrial or commercial activity specified in, a marketing agreement upon which a hearing has been held.

**Order relative to handling.** It is therefore ordered, that on and after the effective date hereof, the handling of milk in the Southeastern Florida marketing area shall be in conformity to and in compliance with the terms and conditions of the aforesaid order, as amended and as hereby amended, as follows:

1. Section 1013.11(a) is revised to read as follows:

#### § 1013.11 Pool plant.

(a) A plant at which the total Class I milk during the month is equal to not less than 50 percent of the receipts at the plant during the month of milk from dairy farmers who meet the inspection requirements pursuant to § 1013.7 and other receipts in the form of milk products designated as Class I milk pursuant to § 1013.41(a) and from which an amount of Class I milk equal to not less than 10 percent of such receipts is disposed of during the month in the marketing area on routes;

#### § 1013.44 [Amendment]

2. In § 1013.44(a)(2), the reference "§ 1013.46(a)(3)" is revised to read "§ 1013.46(a)(3) and (3-a)".

3. In § 1013.46(a), subparagraphs (3), (4) and (8)(i) are revised and a new subparagraph (3-a) is added to read as follows:

#### § 1013.46 Allocation of skim milk and butterfat classified.

(a) \* \* \*

(3) Subtract from the remaining pounds of skim milk in each class, in series beginning with Class III, the pounds of skim milk in other source milk as specified in § 1013.14(b);

(3-a) Subtract in the order specified below from the pounds of skim milk remaining in each class, in series beginning with Class IV, the pounds of skim milk in each of the following:

(i) Receipts of milk products designated pursuant to § 1013.41(a) for which Grade A certification is not established, or which are from unidentified sources;

(ii) Receipts of milk products designated pursuant to § 1013.41(a) from a producer-handler, as defined under this or any other Federal order; and

(iii) Other source milk received from dairy farmers;

(4) Subtract, in the order specified below, from the pounds of skim milk remaining in Class IV, Class III and/or Class II (beginning with Class IV unless otherwise specified) but not in excess of such quantity or quantities:

(i) Receipts of milk and skim milk from an unregulated supply plant:

(a) For which the handler requests such utilization; or

(b) Which are in excess of the pounds of skim milk determined by multiplying the pounds of skim milk remaining in Class I milk by 1.25 and subtracting the sum of the pounds of skim milk in producer milk, receipts from pool plants of other handlers, and receipts in bulk from other order plants; and

(ii) Receipts of milk products designated pursuant to § 1013.41(a) in bulk from an other order plant in excess of similar transfers to such plant, if Class III or Class II utilization, respectively, was requested by the operator of such plant and the handler;

(8) \* \* \*

(i) In series beginning with Class IV and thereafter from Class III and Class II, the pounds determined by multiplying the pounds of such receipts by the larger of the percentage of estimated Class II, Class III and Class IV utilization of skim milk announced for the month by the market administrator pursuant to § 1013.22(1) or the percentage that Class II, Class III and Class IV utilization remaining is of the total remaining utilization of skim milk of the handler; and

4. Section 1013.50 is revised to read as follows:

#### § 1013.50 Class prices.

Subject to the provisions of § 1013.51, the class prices per hundredweight of milk to be paid by each handler shall be as follows:

(a) *Class I milk price.* The price for Class I milk shall be the price, rounded to the nearest cent, obtained by adding to or subtracting from \$6.625 the supply-demand adjustment pursuant to paragraph (c) of this section: *Provided*, That the price shall neither exceed by more than \$4.00 the price calculated pursuant to paragraph (b) of this section nor be less than the price calculated pur-

suant to paragraph (b) of this section plus \$2.75;

(b) Calculate the higher of the prices computed pursuant to subparagraphs (1) and (2) of this paragraph:

(1) The average basic field prices per hundredweight reported to have been paid or to be paid for milk of 3.5 percent butterfat content received from farmers during the preceding month at the following plants or places for which prices have been reported to the market administrator or to the Department:

**PRESENT OPERATOR AND LOCATION**

Pet Milk Co., Coopersville, Mich.  
Borden Co., New London, Wis.  
Carnation Co., Richland Center, Wis.  
Pet Milk Co., Belleville, Wis.  
White House Milk Co., Manitowoc, Wis.  
White House Milk Co., West Bend, Wis.

(2) The price per hundredweight computed as follows: Multiply the Chicago butter price for the preceding month by 3.5, add 20 percent thereof, and add to such sum 7.5 times the amount by which the Chicago powder price for the preceding month exceeds 5 cents.

(c) The supply-demand adjustment shall be calculated as follows:

(1) The "supply-demand percentage" for a month means the quantity of producer milk during the second and third preceding months expressed as a percent of the gross Class I disposition of all pool plants during the same months, rounded to the nearest whole percent.

(2) The "standard utilization percentage" for each month means the percentage shown in the right-hand column of the following schedule in the same line with the month in the left-hand column:

| Months for which price applies | Months for which utilization is computed | Standard utilization percentage |
|--------------------------------|------------------------------------------|---------------------------------|
| January                        | October-November                         | 105                             |
| February                       | November-December                        | 105                             |
| March                          | December-January                         | 105                             |
| April                          | January-February                         | 105                             |
| May                            | February-March                           | 108                             |
| June                           | March-April                              | 112                             |
| July                           | April-May                                | 114                             |
| August                         | May-June                                 | 114                             |
| September                      | June-July                                | 112                             |
| October                        | July-August                              | 108                             |
| November                       | August-September                         | 105                             |
| December                       | September-October                        | 105                             |

(3) The "deviation percentage" for a month means the difference between the supply-demand percentage for the month and the corresponding standard utilization percentage, the direction of such deviation to depend on whether it is above or below the standard utilization percentage.

(4) Compute the deviation percentages for the current and two preceding months, and after excluding any deviation percentage which is in the opposite direction from the deviation percentage of a more recent month, compute a sum from the remaining deviation percentages which excludes any amount by which any of such deviation percentages exceeds any of such deviation percentages for a more recent month.

(5) If the current month's supply-demand percentage is less than the corresponding standard utilization percentage, increase the Class I price by the number of cents which is  $1\frac{1}{2}$  times the

sum computed pursuant to subparagraph (4) of this paragraph; and if the current month's supply-demand percentage is more than the corresponding standard utilization percentage, decrease the Class I price by the number of cents which is  $1\frac{1}{2}$  times the sum computed pursuant to subparagraph (4) of this paragraph.

(d) *Class II milk price.* The Class II price per hundredweight shall be the sum of the amounts computed pursuant to subparagraphs (1) and (2) of this paragraph:

(1) Multiply the Chicago butter price by 1.25, add 4 cents and multiply the result by 3.5; and

(2) Add 2.5 cents to the Chicago powder price and multiply the result by 8.5.

(e) *Class III milk price.* The Class III price per hundredweight shall be the sum of the amounts computed pursuant to subparagraphs (1) and (2) of this paragraph:

(1) Multiply the Chicago butter price by 1.25, add 4 cents and multiply the result by 3.5; and

(2) Deduct 8 cents from the Chicago powder price and multiply the result by 8.5.

(f) *Class IV milk price.* The Class IV price per hundredweight shall be computed as follows: Multiply the Chicago butter price by 1.25, add 4 cents and multiply the result by 3.5.

**§ 1013.70 [Amendment]**

5. In § 1013.70(d), the reference "§ 1013.46(a)(3)" is revised to read "§ 1013.46(a)(3) and (3-a)".

**§ 1013.72 [Amendment]**

6. In § 1013.72, the reference "4.0" is revised to read "3.5".

**§ 1013.86 [Amendment]**

7. In § 1013.86(a)(2), the reference "§ 1013.46(a)(3) and (7)" is revised to read "§ 1013.46(a)(3), (3-a) and (7)".

[F.R. Doc. 65-2281; Filed, Mar. 4, 1965; 8:45 a.m.]

## FEDERAL AVIATION AGENCY

### [14 CFR Part 71]

[Airspace Docket No. 65-WE-17]

### TRANSITION AREA

#### Proposed Alteration

The Federal Aviation Agency is considering an amendment to Part 71 of the Federal Aviation Regulations which would alter the Spokane, Wash., transition area.

The Spokane transition area, as presently described, does not provide adequate controlled airspace for the protection of aircraft executing authorized radar transition and vectoring procedures to Runway 5 at Fairchild AFB, Spokane, Wash.

To provide protection for these procedures, the FAA proposes to increase the 700-foot portion of the Spokane transition area a sufficient amount to include the following:

That airspace extending upward from 700 feet above the surface within a 15-mile radius

of Fairchild AFB, Spokane, Wash. (latitude 47°36'55" N., longitude 117°39'20" W.).

If the action proposed herein is taken, the Spokane transition area would be designated as follows:

That airspace extending upward from 700 feet above the surface within a 15-mile radius of the Spokane International Airport (latitude 47°37'35" N., longitude 117°32'05" W.), and within a 15-mile radius of Fairchild AFB, Spokane, Wash. (latitude 47°36'55" N., longitude 117°39'20" W.); that airspace extending upward from 1,200 feet above the surface within a 38-mile radius of Fairchild AFB, Spokane (latitude 47°36'55" N., longitude 117°39'20" W.), within a 52-mile radius of Fairchild AFB, extending clockwise from the Spokane VORTAC 024° radial to a line 5 miles S of and parallel to the Spokane VORTAC 094° radial, and clockwise from a line 5 miles NE of and parallel to the Spokane VORTAC 156° radial to the Spokane VORTAC 300° radial; and that airspace S of Spokane extending from the 52-mile radius area bounded on the E by longitude 117°32'00" W., on the S by V-536, and on the W by V-281; that airspace extending upward from 7,000 feet MSL within the area bounded by the arcs of 38- and 52-mile radius circles centered on Fairchild AFB, extending clockwise from the Spokane VORTAC 300° to the 024° radial; and that airspace extending upward from 6,000 feet MSL within the area bounded by arcs of 38- and 52-mile radius circles centered on Fairchild AFB, extending clockwise from a line 5 miles S of and parallel to the Spokane VORTAC 094° radial to a line 5 miles NE of and parallel to the Spokane VORTAC 156° radial, excluding the portion within a 39-mile radius of Larson AFB, Moses Lake, Wash.

Interested persons may submit such written data, views or arguments as they may desire. Communications should be submitted in triplicate to the Director, Western Region, Attn: Chief, Air Traffic Division, Federal Aviation Agency, 5651 West Manchester Avenue, Post Office Box 90007, Airport Station, Los Angeles, Calif., 90009. All communications received within forty-five days after publication of this notice in the *FEDERAL REGISTER* will be considered before action is taken on the proposed amendment. No public hearing is contemplated at this time, but arrangements for informal conferences with Federal Aviation Agency officials may be made by contacting the Regional Air Traffic Division Chief. Any data, views or arguments presented during such conferences must also be submitted in writing in accordance with this notice in order to become part of the record for consideration. The proposal contained in this notice may be changed in the light of comments received.

A public Docket will be available for examination by interested persons in the office of the Regional Counsel, Federal Aviation Agency, 5651 West Manchester Avenue, Los Angeles, Calif., 90045.

This amendment is proposed under the authority of sec. 307(a) of the Federal Aviation Act of 1958, as amended; 72 Stat. 749; 49 U.S.C. 1348.

Issued in Los Angeles, Calif., on February 25, 1965.

WILLIAM R. KRIEGER,  
Acting Director,  
Western Region.

[F.R. Doc. 65-2288; Filed, Mar. 4, 1965; 8:45 a.m.]

## FEDERAL HOME LOAN BANK BOARD

[ 12 CFR Part 543 ]

[No. 18,943]

## FEDERAL SAVINGS AND LOAN SYSTEM

## Proposed Application for Permission To Organize

MARCH 2, 1965.

Resolved that, pursuant to Part 508 of the general regulations of the Federal Home Loan Bank Board (12 CFR Part 508) and § 542.1 of the rules and regulations for the Federal Savings and Loan System (12 CFR 542.1), it is hereby proposed that § 543.2 of the rules and regulations for the Federal Savings and Loan System (12 CFR 543.2) be amended by an amendment, the substance of which is as follows:

Amend § 543.2 of the rules and regulations for the Federal Savings and Loan System to read as follows:

§ 543.2 Application for permission to organize a Federal association.

(a) *General provisions.* (1) All requests by interested persons for advice or instructions with respect to any matter arising under this section shall be addressed to the Board's Supervisory Agent. As used in this section, the term "Supervisory Agent" means the President of the Federal home loan bank of the district in which the proposed association is to be located or any other officer or employee of such bank appointed by the Board as agent as provided by § 501.11 of the general regulations of the Federal Home Loan Bank Board (§ 501.11 of this chapter). All recommendations by Supervisory Agents and by officers and employees of the Board in connection with any application for permission to organize a Federal association shall be deemed to be privileged and confidential and subject to the provisions of §§ 505.10, 505.11 and 505.12 of the general regulations of the Federal Home Loan Bank Board (§§ 505.10, 505.11 and 505.12 of this chapter).

(2) An application for permission to organize a Federal association shall be approved or disapproved by the Board within a period not exceeding 9 months after publication of the notice required by paragraph (e) of this section, unless the Board, with respect to a particular application, extends such period.

(b) *Application form; supporting information.* An application for permission to organize a Federal association shall be in form prescribed by the Board and shall be executed by at least 7 persons residing in the community to be served by the proposed association (hereinafter referred to as the "applicants"). Such application and prescribed "Outline of Information to be Submitted in Support of an Application for Permission to Organize a Federal Association" may be obtained from the Supervisory Agent. Information shall be furnished in support of the application in accordance with such Outline designed to show: (1) The applicants are citizens of the United States of good character and responsi-

bility; (2) there is a necessity for the proposed association in the community to be served by it; (3) there is a reasonable probability of usefulness and success of the proposed association; and (4) the proposed association can be established without undue injury to properly conducted existing local thrift and home-financing institutions. The application shall include an estimate of the annual income and expenses of the proposed association and of the annual volume of business to be transacted by it, and a statement of the personnel and office facilities to be provided for the operation of such association. An application shall be deemed to be complete when the foregoing requirements of this paragraph (b) have been met.

(c) *Filing of application.* An application for permission to organize a Federal association shall be filed with the Board by delivering two copies thereof, together with two copies of all supporting information, to the Supervisory Agent.

(d) *Amendment of application; filing of additional information.* After a complete application for permission to organize a Federal association has been filed with the Board, and prior to the date of advice by the Supervisory Agent to the applicants to publish notice of the filing of the application pursuant to paragraph (e) of this section, the applicants may file additional information in support of the application and may amend the application; after the date of such advice, the applicants may not amend the application or, unless and until a hearing on the application is ordered, file any additional supporting information unless requested by or on behalf of the Board.

(e) *Processing of application by Supervisory Agent; public notice; inspection.* (1) Upon determination by the Supervisory Agent that an application for permission to organize a Federal association is complete, the Supervisory Agent shall advise the applicants, in writing, to publish, within 15 days from the date of such advice, in a newspaper printed in the English language and having general circulation in the community to be served by the proposed Federal association, a notice of the filing of the application in the following form:

## NOTICE OF FILING OF APPLICATION FOR PERMISSION TO ORGANIZE A FEDERAL SAVINGS AND LOAN ASSOCIATION

Notice is hereby given that, pursuant to the provisions of § 543.2 of the Rules and Regulations for the Federal Savings and Loan System,

(Fill in names of applicants)

have filed an application with the Federal Home Loan Bank Board for permission to organize a Federal savings and loan association to be located at, or in the immediate vicinity of,

(Street address) (City)

(State) The application has been de-

livered to the office of the Supervisory Agent of the said Board, located at the Federal Home Loan Bank of

(City)

(Street address) (City)

(State) Any person may file commu-

nications in favor or in protest of said application at the aforesaid office of the Supervisory Agent within 20 days after the date of this publication. Under the said Rules and Regulations for the Federal Savings and Loan System, a hearing in Washington, D.C., may be held if, pursuant to this notice, any interested person expresses a written protest, which shall be filed in duplicate and supported by specific written objections, to said application and requests a hearing at which he expresses intention to appear, provided such protest and request are received at the aforesaid office of the Supervisory Agent within 20 days after the date of this publication. Any such written protest which is not coupled with a request for hearing will also be considered if received at the aforesaid office of the Supervisory Agent within 20 days of the date of this publication. The complete application, together with all communications in favor or in protest thereof, are available for inspection by interested persons at the aforesaid office of the Supervisory Agent.

(2) Within 20 days after the date of publication of said notice, any person may file, at the office of the Supervisory Agent designated in the notice, communications in favor or in protest of the application.

(3) Promptly after publication of the notice, the applicants shall transmit two copies thereof to the Supervisory Agent accompanied by two copies of a publisher's affidavit of publication.

(4) The complete application, together with all communications in favor or in protest thereof, shall be available at the office of the Supervisory Agent during regular working hours for inspection by interested persons following the date of publication of the notice as hereinabove provided. Prior to the issuance to the applicants of advice to publish a notice, the application and the fact that it has been filed shall be held as confidential.

(f) *Hearings.* (1) *General provisions.* A hearing shall be held upon an application for permission to organize a Federal association in any case in which a hearing is ordered unless it is dispensed with as provided in the order for a hearing. A copy of an order for a hearing shall be mailed to the applicants and to all persons who have filed written statements protesting approval of the application. In any case in which the Board has disapproved an application without a hearing, a hearing may be held, at the discretion of the Board, if such hearing is requested by the applicants within 30 days after receipt by them of advice that the Board has disapproved the application. Notwithstanding any other provision of this section, the Board may at any time, in its discretion and on its own motion, order a hearing on an application for permission to organize a Federal association. Any interested person may appear, in person or by attorney, at any hearing held on an application for permission to organize a Federal association and submit any evidence pertinent to the questions at issue.

(2) *Procedure.* After a hearing has been ordered, the order for such hearing, the application and supporting information, and any protest and information in support of any protest, shall be available at the office of the Secretary to the Board for inspection during regular working hours. The hearing shall be held before

a hearing officer who shall be a member of the staff of the General Counsel of the Federal Home Loan Bank Board and who shall be designated by the General Counsel or a Deputy or Associate General Counsel. The hearing officer shall have complete charge of the hearing; may receive, admit, allow, exclude, and deny petitions, briefs, and evidence, including the hearing of testimony according to the rules of evidence governing civil proceedings in matters not involving trial by jury in the courts of the United States, provided, however, that such rules may be relaxed by the hearing officer in order to expedite the proceedings or promote the just determination of the ultimate issue; may make rulings and note exceptions, but shall not have power to grant any motion to dismiss the proceedings or other motion that involves final determination of the ultimate issue; may hear arguments; may adjourn the said hearing from time to time, if, in his judgment, it is desirable to the orderly conduct of the said hearing or to promote the just determination of the ultimate issue; shall order the preparation of a record, including a transcript of the testimony and evidence presented; and may do all such things and have all such powers as are necessary or proper for the orderly conduct of the hearing or to promote the just determination of the ultimate issue, but shall not have power to finally determine the ultimate issue. The hearing officer shall determine whether the filing of briefs after a hearing will be permitted, and if such filing is permitted, the hearing officer shall restrict the time for filing to a postmark date not later than 30 days after the conclusion of the hearing, unless for good cause a longer period is allowed. The hearing officer shall not permit the filing of reply briefs.

(g) *Approval.* If the Board approves the application, it will establish, as conditions to be met prior to the issuance of a charter, requirements as to (1) minimum number of subscribers to the association's capital; (2) minimum amount of capital to be paid into the association's savings accounts upon issuance of a charter to it; and (3) such other requirements as it deems necessary or desirable. Approval of an application for permission to organize a Federal association will not in any manner obligate the Board to issue a charter.

(Sec. 5, 48 Stat. 132, as amended; 12 U.S.C. 1464. Reorg. Plan No. 3 of 1947, 12 F.R. 4981, 3 CFR, 1947 Supp.)

Resolved further that all interested persons are hereby given the opportunity to submit written data, views, or arguments on the following subjects and issues: (1) Whether said proposed amendment should be adopted as proposed; (2) whether said proposed amendment should be modified and adopted as modified; (3) whether said proposed amendment should be rejected. All such written data, views, or argu-

ments must be received through the mail or otherwise at the Office of the Secretary, Federal Home Loan Bank Board, Federal Home Loan Bank Board Building, 101 Indiana Avenue NW., Washington, D.C. 20552, not later than April 5, 1965, to be entitled to be considered, but any received later may be considered in the discretion of the Federal Home Loan Bank Board.

By the Federal Home Loan Bank Board.

[SEAL] HARRY W. CAULSEN,  
Secretary.

[F.R. Doc. 65-2324; Filed, Mar. 4, 1965;  
8:50 a.m.]

## [ 12 CFR Parts 544, 545 ]

[No. 18,944]

### OPERATIONS; BONUS PLANS

#### Determination Not To Adopt Proposed Amendment

MARCH 2, 1965.

Whereas, by Resolution No. 14,668, dated June 2, 1961, and duly published in the FEDERAL REGISTER on June 9, 1961 (26 F.R. 5180), this Board resolved, pursuant to Part 508 of the general regulations of the Federal Home Loan Bank Board (12 CFR Part 508), and § 542.1 of the rules and regulations for the Federal Savings and Loan System (12 CFR 542.1), to propose that Parts 544 and 545 of the rules and regulations for the Federal Savings and Loan System (12 CFR Parts 544 and 545) be amended by amendments the substance of which amendments was set out in said publication, and

Whereas, careful consideration has been given to such proposed amendment;

It is hereby resolved, that this Board determines not to adopt the amendment proposed by said Resolution No. 14,668.

(Sec. 5, 48 Stat. 132, as amended; 12 U.S.C. 1464. Reorg. Plan No. 3 of 1947, 12 F.R. 4981, 3 CFR, 1947 Supp.)

By the Federal Home Loan Bank Board.

[SEAL] HARRY W. CAULSEN,  
Secretary.

[F.R. Doc. 65-2323; Filed, Mar. 4, 1965;  
8:49 a.m.]

## [ 12 CFR Part 545 ]

[No. 18,945]

### OPERATIONS; DISTRIBUTION OF EARNINGS

#### Determination Not To Adopt Proposed Amendment

MARCH 2, 1965.

Whereas, by Resolution No. 17,358, dated August 22, 1963, and duly published in the FEDERAL REGISTER on August 30, 1963 (28 F.R. 9537), this Board resolved,

pursuant to Part 508 of the general regulations of the Federal Home Loan Bank Board (12 CFR Part 508), and § 542.1 of the rules and regulations for the Federal Savings and Loan System (12 CFR 542.1), to propose that Part 545 of the rules and regulations for the Federal Savings and Loan System (12 CFR Part 545) be amended by the addition of a new section, § 545.3-1, entitled "Distribution of earnings at variable rate," the substance of which amendment was set out in said publication, and

Whereas, careful consideration has been given to such proposed amendment;

It is hereby resolved, that this Board determines not to adopt the amendment proposed by said Resolution No. 17,358.

(Sec. 5, 48 Stat. 132, as amended; 12 U.S.C. 1464. Reorg. Plan No. 3 of 1947, 12 F.R. 4981, 3 CFR, 1947 Supp.)

By the Federal Home Loan Bank Board.

[SEAL] HARRY W. CAULSEN,  
Secretary.

[F.R. Doc. 65-2320; Filed, Mar. 4, 1965;  
8:49 a.m.]

## [ 12 CFR Part 563 ]

[No. FSLIC-2,003]

### OPERATIONS; ADVERTISING OF RATE OF RETURN ON WITHDRAWABLE ACCOUNTS

#### Determination Not To Adopt Proposed Amendment

MARCH 2, 1965.

Whereas, by Resolution No. FSLIC-839, dated April 18, 1960, and duly published in the FEDERAL REGISTER on April 22, 1960 (25 F.R. 3530), this Board resolved, pursuant to Part 508 of the general regulations of the Federal Home Loan Bank Board (12 CFR Part 508) and § 567.1 of the rules and regulations for Insurance of Accounts (12 CFR 567.1), to propose that Part 563 of the rules and regulations for Insurance of Accounts (12 CFR Part 563) be amended by the addition of a new section, § 563.27-1, entitled "Advertising Rate of Return on Withdrawable Accounts", the substance of which amendment was set out in said publication, and

Whereas, careful consideration has been given to such proposed amendment;

It is hereby resolved, that this Board hereby determines not to adopt the amendment proposed by said Resolution No. FSLIC-839.

(Secs. 402, 403, 48 Stat. 1256, 1257, as amended; 12 U.S.C. 1725, 1726. Reorg. Plan No. 3 of 1947, 12 F.R. 4981, 3 CFR, 1947 Supp.)

By the Federal Home Loan Bank Board.

[SEAL] HARRY W. CAULSEN,  
Secretary.

[F.R. Doc. 65-2322; Filed, Mar. 4, 1965;  
8:49 a.m.]

# Notices

## DEPARTMENT OF STATE

### Agency for International Development PRINCIPAL DIPLOMATIC OFFICERS IN CONGO (BRAZZAVILLE) AND IVORY COAST

[Delegation of Authority 21-C]

### Recision of Delegation of Authority With Respect to Administration of A.I.D. Program

Pursuant to the authority delegated to me by Delegation of Authority No. 104 from the Secretary of State, dated November 3, 1961 as amended; and in further implementation of the operational plans of the Regional USAID for Africa; there is hereby rescinded:

Delegation of Authority No. 21 insofar as it applies to the principal diplomatic officer accredited in Congo (Brazzaville), dated November 20, 1962 from the Administrator of A.I.D. (27 F.R. 11821) effective immediately.

Delegation of Authority No. 30 insofar as it applies to the principal diplomatic officer accredited in the Ivory Coast, dated September 13, 1963 from the Administrator of A.I.D. (28 F.R. 11512) effective March 1, 1965.

Dated: February 18, 1965.

WILLIAM S. GAUD,  
Deputy Administrator.

[F.R. Doc. 65-2293; Filed, Mar. 4, 1965;  
8:46 a.m.]

## DEPARTMENT OF THE TREASURY

### Bureau of Customs

[AA 643.3-b]

### OFFICE MACHINE SPOOLS FROM WEST GERMANY

### Antidumping Proceeding Notice

MARCH 1, 1965.

On February 15, 1965, the Commissioner of Customs received information in proper form pursuant to the provisions of § 14.6(a) of the Customs Regulations that all shipments of office machine spools imported from West Germany, manufactured by Regentrop & Bernard, Wuppertal, Germany, are being, or likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

Ordinarily, merchandise is considered to be sold at less than fair value when the net, f.o.b. factory price for exportation to the United States is less than the net, f.o.b. factory price to purchasers in the home market, after due allowance is made, where appropriate, for differences in quantity and other circumstances of sale.

No. 43—Pt. I—6

A summary of the information received is as follows: Trade discounts granted on shipments to world markets are substantially less than the same category discounts granted on sales for exportation to the United States.

The information was received from sources within the Customs Service.

This notice is published pursuant to § 14.6(d) (1) (i) of the Customs Regulations (19 CFR 14.6(d) (1) (i)).

[SEAL] LESTER D. JOHNSON,  
Acting Commissioner of Customs.

[F.R. Doc. 65-2298; Filed, Mar. 4, 1965;  
8:46 a.m.]

### Office of the Secretary

[Treasury Dept. Order No. 167-65]

### COAST GUARD BOARD OF CONTRACT APPEALS

### Delegation of Functions

The regulations which created the newly constituted Coast Guard Board of Contract Appeals and which were published in the FEDERAL REGISTER on December 24, 1964 (29 F.R. 18368) vest in that Board (hereinafter referred to as the "New Board") the authority to take final action in contract dispute appeal cases which it considers.

Before the establishment of the New Board, Coast Guard Boards of Contract Appeals (hereinafter referred to as the "Old Board(s)") operated under regulations which provided that the Secretary of the Treasury, or his designated representative, would review and accept, reject or modify and thus take final action on the recommendations and findings of the Old Boards in contract appeals disputes.

It has now been determined that the New Board shall assume the full functions of the Secretary of the Treasury to review, accept, reject or modify and thus take final action on the recommendations and findings of the Old Boards in any case in which the recommendations and findings of an Old Board have not as yet been reviewed, accepted, rejected or modified by the Secretary or his delegate.

Pursuant to the authority of 40 U.S.C. 486(c), and by virtue of the authority delegated to me by Treasury Department Order No. 190 (Revision 2) the Coast Guard Board of Contract Appeals (the New Board) is hereby authorized to take final action in all Coast Guard contract appeals now pending regardless of the date on which any such appeal was filed.

Dated: February 26, 1965.

[SEAL] JAMES A. REED,  
Assistant Secretary of the Treasury.

[F.R. Doc. 65-2302; Filed, Mar. 4, 1965;  
8:46 a.m.]

## DEPARTMENT OF THE INTERIOR

### Fish and Wildlife Service

[Docket No. Sub-G-3]

### WAASY T. AND CARMEL F. FRANKS

### Notice of Hearing

Waasy T. Franks and Carmel F. Franks, Fort Myers, Fla., have applied for a fishing vessel construction differential subsidy to aid in the construction of an 85-foot overall steel vessel to engage in the fishery for shrimp, including royal red shrimp, snappers, groupers, and Atlantic tuna.

Notice is hereby given pursuant to the provisions of the United States Fishing Fleet Improvement Act (P.L. 88-498) and Notice and Hearing on Subsidies (50 CFR Part 257) that a hearing in the above-entitled proceedings will be held on April 6, 1965, at 10:00 a.m., e.s.t. in Room 3356, Interior Building, 18th and C Streets NW., Washington, D.C. Any person desiring to intervene must file a petition of intervention with the Director, Bureau of Commercial Fisheries, as prescribed in 50 CFR Part 257 at least 10 days prior to the date set for the hearing. If such petition of intervention is granted, the place of the hearing may be changed to a field location. Telegraphic notice will be given to the parties in the event of such a change along with the new location.

HAROLD E. CROWTHER,  
Acting Director,  
Bureau of Commercial Fisheries.

MARCH 2, 1965.

[F.R. Doc. 65-2279; Filed, Mar. 4, 1965;  
8:45 a.m.]

### Office of the Secretary

[Order 2886]

### TRANSFER OF FUNCTIONS RELATING TO MINERALS EXPLORATIONS TO THE GEOLOGICAL SURVEY

SECTION 1. *Reassignment of functions.* The functions assigned by the Secretary of the Interior to the Director, Office of Minerals Exploration, are reassigned to the Director, Geological Survey, effective upon publication of this notice in the FEDERAL REGISTER. These functions include the functions of the Secretary of the Interior under the Act of August 21, 1958 (30 U.S.C. 641-646) and the functions of the Secretary under the Defense Production Act of 1950 relating to domestic exploration for metals and minerals.

SEC. 2. *Reassignment of personnel, records, funds, and property.* The Office of Minerals Exploration is abolished, and the personnel, records, funds, and property assigned to the Office of Minerals

Exploration are transferred to the Geological Survey, effective upon publication of this notice in the *FEDERAL REGISTER*.

**Sec. 3. Delegation of authority.** (a) Except as provided in paragraph (b) of this section, and in 200 DM 2.1, the Director, Geological Survey, is authorized to exercise the authority of the Secretary of the Interior under the act of August 21, 1958 (30 U.S.C. 641-643), pursuant to regulations issued pursuant to the act of August 21, 1958.

(b) Paragraph (a) of this section does not authorize the Director to make reports and recommendations to Congress, as provided in section 5 of the act of August 21, 1958.

(c) Except as provided in 200 DM 2.1, in paragraph (d) of this section, and in redelegations, which the Secretary may make or has continued, to agencies outside of the Department of the Interior, all functions and powers which are or may be vested in the Secretary of the Interior by delegations or redelegations issued pursuant to the Defense Production Act of 1950, as amended, or issued pursuant to any other law by virtue of authority delegated to him under the Defense Production Act of 1950, as amended, may be performed and exercised, insofar as these functions and powers relate to domestic exploration for metals and minerals, by the Director.

(d) The delegation made in paragraph (c) of this section is subject to the following limitations:

(1) The Director is not authorized to redelegate any power or function to any person other than an officer or employee of the Geological Survey.

(2) Existing arrangements for Department representation on interagency and interdepartmental committees and boards dealing with defense functions are hereby confirmed, but the function of specifying the arrangements for such representation as may be necessary is reserved to the Secretary.

(3) The function of establishing policies pertaining to defense matters involving two or more defense areas is reserved to the Secretary.

(e) The Director may redelegate the authority granted in this section.

**Sec. 4. Authority.** This order is made under the authority of Reorganization Plan No. 3 of 1950 (5 U.S.C. 481, note).

STEWART L. UDALL,  
Secretary of the Interior.

FEBRUARY 26, 1965.

[F.R. Doc. 65-2295; Filed, Mar. 4, 1965; 8:46 a.m.]

## DEPARTMENT OF AGRICULTURE

Office of the Secretary  
MASSACHUSETTS

### Designation of Areas for Emergency Loans

For the purpose of making emergency loans pursuant to section 321 of the Con-

solidated Farmers Home Administration Act of 1961 (7 U.S.C. 1961), it has been determined that in the hereinafter-named counties in the State of Massachusetts a natural disaster has caused a need for agricultural credit not readily available from commercial banks, cooperative lending agencies, or other responsible sources.

#### MASSACHUSETTS

|             |            |
|-------------|------------|
| Barnstable. | Hampshire. |
| Berkshire.  | Middlesex. |
| Bristol.    | Nantucket. |
| Dukes.      | Norfolk.   |
| Essex.      | Plymouth.  |
| Franklin.   | Worcester. |
| Hampden.    |            |

Pursuant to the authority set forth above, emergency loans will not be made in the above-named counties after December 31, 1965, except to applicants who previously received emergency or special livestock loan assistance and who can qualify under established policies and procedures.

Done at Washington, D.C., this 1st day of March 1965.

ORVILLE L. FREEMAN,  
Secretary.

[F.R. Doc. 65-2282; Filed, Mar. 4, 1965; 8:45 a.m.]

## DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

### Food and Drug Administration

#### DOW CHEMICAL CO.

### Notice of Filing of Petition for Food Additives Paper and Paperboard

Pursuant to the provisions of the Federal Food, Drug, and Cosmetic Act (sec. 409(b) (5), 72 Stat. 1786; 21 U.S.C. 348 (b) (5)), notice is given that a petition (FAP 5B1683) has been filed by The Dow Chemical Co., Midland, Mich., 48641, pro-

posing an amendment to § 121.2571 Paper and paperboard in contact with dry food to provide for the safe use of 2-hydroxyethyl acrylate as a monomer in polymers used as a component of paper and paperboard intended for use in contact with dry food.

Dated: February 26, 1965.

MALCOLM R. STEPHENS,  
Assistant Commissioner  
for Regulations.

[F.R. Doc. 65-2305; Filed, Mar. 4, 1965; 8:47 a.m.]

#### SHELL CHEMICAL CO.

### Notice of Filing of Petition for Food Additive 1,2-Epoxy-3-Phenoxypropane

Pursuant to the provisions of the Federal Food, Drug, and Cosmetic Act (sec. 409(b) (5), 72 Stat. 1786; 21 U.S.C. 348 (b) (5)), notice is given that a petition (FAP 5B1624) has been filed by Shell Chemical Co., 110 West 51st Street, New York, N.Y., 10020, proposing an amendment to § 121.2585(b) of the food additive regulations by inserting alphabetically therein the new item "1,2-Epoxy-3-phenoxypropane."

Dated: February 26, 1965.

MALCOLM R. STEPHENS,  
Assistant Commissioner  
for Regulations.

[F.R. Doc. 65-2306; Filed, Mar. 4, 1965; 8:47 a.m.]

#### NEW DRUGS

### Notice of Approval of Applications

As provided in § 130.33 of the new-drug regulations (21 CFR 130.33), notice is given of the following new drugs for which applications, or supplemental applications for substantive labeling changes, have been approved on the dates specified:

#### DRUGS FOR HUMAN USE

| Active ingredients (as declared on label)                                                                              | Trade name or other designated name and dosage form | Principal indication or pharmacological category | Applicant                                                              | Date approved                                                | How dispensed |
|------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|--------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------|---------------|
| Demecarium bromide, 0.25% or 0.125%.                                                                                   | Humorsol (ophthalmic solution).                     | Cholinesterase inhibitor.                        | Merck Sharp & Dohme Research Laboratories, West Point, Pa.             | 1964<br>Oct. 16 (supplemental application, labeling change). | Ra            |
| Oxyphenbutazone, 100 mg. per tablet.                                                                                   | Tandearil (tablet).                                 | Anti-inflammatory.                               | Geigy Pharmaceuticals, Division of Geigy Chemical Corp., Ardsley, N.Y. | Nov. 4 (supplemental application, labeling change).          | Ra            |
| Thioridazine hydrochloride, 10 mg., 25 mg., 60 mg., 100 mg., and 200 mg. per tablet and 30 mg. per cc. of concentrate. | Mellaril (tablet and concentrate).                  | Psychotherapeutic agent.                         | Sandoz Pharmaceuticals, Hanover, N.J.                                  | Nov. 4 (supplemental applications (2), labeling changes).    | Ra            |
| Nortriptyline hydrochloride (equivalent to base), 10 mg. and 25 mg. per capsule.                                       | Pulvules Aventyl HCl (capsule).                     | Antidepressant.                                  | El Lilly and Co., 740 S. Alabama St., Indianapolis, Ind.               | Nov. 6.                                                      | Ra            |
| Nortriptyline hydrochloride (equivalent to base), 10 mg. per cc.                                                       | Liquid AVENTYL HCl (liquid).                        | do.                                              | do.                                                                    | do.                                                          | Ra            |

See footnote at end of table.

## DRUGS FOR HUMAN USE—Continued

| Active ingredients (as declared on label)                               | Trade name or other designated name and dosage form | Principal indication or pharmacological category   | Applicant                                                              | Date approved | How dispensed |
|-------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|------------------------------------------------------------------------|---------------|---------------|
|                                                                         | Bopiant (sterile, processed bovine bone).           | Orthopedic surgery.                                | E. R. Squibb & Sons, Georges Road, New Brunswick, N.J.                 | Nov. 9, 1964  | R.            |
| Desipramine hydrochloride, 25 mg.                                       | Norpramin (tablet).                                 | Antidepressant.                                    | Lakeside Laboratories, Inc., 1707 E. North Ave., Milwaukee, Wis.       | Nov. 20       | R.            |
| 4-Aminosalicylic acid, 2 mg. per gram.                                  | Akrinol (topical cream).                            | Tinea versicolor.                                  | Schering Corp., 60 Orange St., Bloomfield, N.J.                        | Nov. 27       | R.            |
| Desamethasone 21 phosphate (as mono- and disodium salts), 4 mg. per cc. | Hexadrol (sterile solution).                        | Hormonal anti-inflammatory and antiallergic agent. | Organon, Inc., 375 Mount Pleasant Ave., West Orange, N.J., 07082.      | Dec. 4        | R.            |
| Desipramine hydrochloride, 25 mg.                                       | Pertofrane (capsule).                               | Antidepressant.                                    | Geigy Pharmaceuticals, Division of Geigy Chemical Corp., Ardsley, N.Y. | Dec. 18       | R.            |

## DRUGS FOR VETERINARY USE

|                                                                                |                                        |                            |                                                                                 |                                                      |      |
|--------------------------------------------------------------------------------|----------------------------------------|----------------------------|---------------------------------------------------------------------------------|------------------------------------------------------|------|
| Tylosin tartrate, 0.25 mg. per cc.                                             | Tylan (injection).                     | Antibiotic                 | Elanco Products Co., Post Office Box 1750, Indianapolis, Ind.                   | July 21 (supplemental application, labeling change). | OCT. |
| Tylosin, 50 mg. per cc.                                                        | Tylan 50 (injection).                  | do                         | Corvel, Inc., 1124 Harney St., Omaha, Nebr.                                     | Oct. 9 (supplemental application, labeling change).  | OTC. |
| Tylosin, 200 mg. per cc.                                                       | Tylocine (injection).                  | do                         | do                                                                              | do                                                   | OTC. |
| Polymyxin B sulfate, 400 units; virginiamycin, 10 mg. (per gram respectively). | Virmyxin (ointment).                   | do                         | Norden Laboratories, Inc., Lincoln, Nebr.                                       | Oct. 23                                              | OTC. |
| Furazolidone, 100 mg. per dose or 85 mg. per cc.                               | Furoxone Veterinary (oral suspension). | Antimicrobial.             | Eaton Laboratories, Div. of Norwich Pharmacal Co., 17 Eaton Ave., Norwich, N.Y. | Oct. 29 (supplemental application, labeling change). | OTC. |
| Furazolidone, 1 gm.; bismuth subsalicylate, 0.26 gm.                           | Entefur (bolus).                       | Diarrhea in calves.        | do                                                                              | Dec. 4 (supplemental application, labeling change).  | OTC. |
| Sulfadimethoxine, 0.5 gm. per tablet, 125 mg. per cc.                          | Albon (tablet and injection).          | Antimicrobial.             | Hoffman-La Roche, Inc., Nutley, N.J.                                            | Dec. 14                                              | R.   |
| Methylprednisolone acetate, 20 mg. per cc.                                     | Dopo-Medrol (injection).               | Anti-inflammatory steroid. | The Upjohn Co., Kalamazoo, Mich.                                                | Dec. 24 (supplemental application, labeling change). | R.   |

<sup>1</sup> The abbreviation "R." means restricted by law to prescription only; the abbreviation "OTC" applies to drugs that by law are not required to be sold on prescription.

## CORRECTION

A notice of approval of a new-drug application for a veterinary drug containing salicylic acid was published in the FEDERAL REGISTER of January 29, 1964 (29 FR 1497). It was listed incorrectly as "R." and is changed to "OTC"; the trade name "Surjets" is changed to "Shurjets"; and the name of the applicant is changed to "The Shurjets Company."

Dated: February 26, 1965.

GEO. P. LARRICK,

Commissioner of Food and Drugs.

[F.R. Doc. 65-2307; Filed, Mar. 4, 1965; 8:47 a.m.]

## TRANSPARENT PAPER LTD.

## Notice of Filing of Petition for Food Additive Cellophane

Pursuant to the provisions of the Federal Food, Drug, and Cosmetic Act (sec. 409(b) (5), 72 Stat. 1786; 21 U.S.C. 343 (b) (5)), notice is given that a petition (FAP 4B1376) has been filed by Transparent Paper Ltd., Bridge Hall Mills, Heap Bridge, Bury, Lancashire, England, proposing an amendment to § 121.2507 of the food additive regulations to provide for the safe use of polyethylene-aminostearamide ethyl sulfate as an optional component of food-packaging cellophane at a level not to exceed 0.1 percent by weight of the finished cellophane.

Dated: February 26, 1965.

MALCOLM R. STEPHENS,  
Assistant Commissioner  
for Regulations.

[F.R. Doc. 65-2308; Filed, Mar. 4, 1965; 8:48 a.m.]

## ATOMIC ENERGY COMMISSION

[Docket No. 50-144]

## CAROLINAS VIRGINIA NUCLEAR POWER ASSOCIATES, INC.

## Notice of Proposed Issuance of Operating License

Notice is hereby given pursuant to section 189 of the Atomic Energy Act of 1954, as amended, and § 50.58 of 10 CFR Part 50, that unless within thirty days after publication of this notice in the FEDERAL REGISTER a request for a hearing is filed with the U.S. Atomic Energy Commission ("the Commission") by a

person whose interest may be affected by this proceeding in accordance with the Commission's rules of practice, 10 CFR Part 2, the Commission proposes to issue an operating license, substantially as set forth below, to Carolinas Virginia Nuclear Power Associates, Inc. ("CVNPA"), authorizing operation of its nuclear reactor located at Parr, S.C. The proposed license would (1) convert CVNPA's existing provisional operating license to a full term operating license and (2) incorporate changes in the Technical Specifications which are being authorized in accordance with CVNPA's license application Amendment Nos. 18 and 20, dated July 1, 1964, and October 28, 1964, respectively.

Construction of the reactor was authorized by Construction Permit No. CFP-7 issued on May 4, 1960. CVNPA has operated the reactor under Provisional Operating License No. DPR-8 issued on November 27, 1962.

The Commission has found that:

(1) The application complies with the requirements of the Atomic Energy Act of 1954, as amended, and the Commission's regulations set forth in Title 10, Ch. I, CFR;

(2) There is reasonable assurance that (i) the activities authorized by this license can be conducted at the designated location without endangering the health and safety of the public, and (ii) such activities will be conducted in compliance with the rules and regulations of the Commission;

(3) CVNPA is technically and financially qualified to engage in the proposed activities in accordance with the Commission's regulations and to assume financial responsibility for payment of material charges for special nuclear material;

(4) The issuance of this license will not be inimical to the common defense and security or to the health and safety of the public.

For further details with respect to this proposed license, see (1) the license application amendments dated July 1, 1964, July 9, 1964, and October 28, 1964; (2) the report of the Advisory Committee on Reactor Safeguards dated November 18, 1964; (3) a related hazards analysis prepared by the Research and Power Reactor Safety Branch of the Division of Reactor Licensing; and (4) the Technical Specifications and the special nuclear material transfer schedule which are incorporated in the license and designated as Appendices A and B thereto, respectively, all of which will be available for public inspection at the Commission's Public Document Room, 1717 H Street NW., Washington, D.C. Copies of items (2) and (3) above may be obtained at the Commission's Public Document Room, or upon request addressed to the Atomic Energy Commission, Washington, D.C., 20545, Attention, Director, Division of Reactor Licensing.

Dated at Bethesda, Md., this 2d day of March 1965.

For the Atomic Energy Commission.

E. G. CASE,  
Acting Director,  
Division of Reactor Licensing.

[License No. DPR-8]

1. This license applies to the facility, consisting of a pressurized heavy water cooled and moderated nuclear reactor (hereinafter referred to as "the reactor") and associated components and equipment, which is owned by Carolinas Virginia Nuclear Power Associates, Inc. (hereinafter referred to as "CVNPA"), located at Parr, S.C., and described in CVNPA's license application dated July 9, 1959 and license application Amendment Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, and 21, dated July 17, 1959, August 5, 1959, August 24, 1959, October 23, 1959, December 16, 1959, December 30, 1959, July 7, 1961, January 24, 1962, February 8, 1962, February 19, 1962, April 24, 1962, June 8, 1962, June 27, 1962, August 3, 1962, August 16, 1962, August 17, 1962, June 15, 1964, July 1, 1964, September 28, 1964, October 28, 1964, and November 20, 1964, respectively (hereinafter referred to as "the application").

2. Subject to the conditions and requirements incorporated herein, the Atomic Energy Commission (hereinafter referred to as "the Commission") hereby licenses CVNPA:

A. Pursuant to section 104b. of the Atomic Energy Act of 1954, as amended (hereinafter referred to as "the Act"), and Title 10, CFR, Ch. I, Part 50, "Licensing of Production and Utilization Facilities," to possess, use and operate the reactor as a utilization facility;

B. Pursuant to the Act and Title 10, CFR, Ch. I, Part 70, "Special Nuclear Material," to receive, possess and use at any one time 146.5 kilograms of contained Uranium-235 as fuel for operation of the reactor;

C. Pursuant to the Act and Title 10, CFR, Ch. I, Part 70, to receive, possess and use 16 grams of plutonium encapsulated as a plutonium-beryllium neutron source for startup of the reactor;

D. Pursuant to the Act and Title 10, CFR, Ch. I, Part 30, "Licensing of Byproduct Material," to possess, but not to separate, such byproduct material as may be produced by operation of the reactor.

3. This license shall be deemed to contain and be subject to the conditions specified in § 50.54 of Part 50, § 70.32 of Part 70, and § 30.32 of Part 30 of the Commission's regulations, and is subject to all applicable provisions of the Act and the rules, regulations and orders of the Commission now or hereafter in effect; and is subject to the additional conditions specified below:

A. **Maximum power level.** CVNPA shall not operate the reactor at steady state power levels in excess of 44.3 megawatts thermal.

B. **Technical specifications.** The Technical Specifications contained in Appendix A to this license (hereinafter referred to as the "Technical Specifications") are hereby incorporated in this license. CVNPA shall operate the facility in accordance with the Technical Specifications. No changes shall be made in the Technical Specifications unless authorized by the Commission as provided in 10 CFR 50.59, or as otherwise permitted by the Act and the Commission's rules and regulations.

C. **Records.** In addition to those otherwise required under this license and applicable regulations, CVNPA shall keep the following records:

(1) Reactor operating records, including power levels and periods of operation at each power level.

(2) Records showing the radioactivity released or discharged into the air or water beyond the effective control of CVNPA as measured at or prior to the point of such release or discharge.

(3) Records of scrams, including reasons therefor.

(4) Records of principal maintenance operations involving substitution or replacement of facility equipment or components and the reasons therefor.

(5) Records of radioactivity measurements at on-site and off-site monitoring stations.

(6) Records of facility tests and measurements performed pursuant to the requirements of the Technical Specifications.

D. **Reports.** In addition to reports otherwise required under this license and applicable regulations:

(1) CVNPA shall make an immediate report in writing to the Commission of any indication or occurrence of a possible unsafe condition relating to the operation of the facility, including, without implied limitation, any possible unsafe condition arising out of:

a. Any substantial variance disclosed by operation of the facility from the performance specifications set forth in the final hazards summary report, and

b. Any accidental release of radioactivity whether or not resulting in property damage or personal injury or exposure above permissible limits.

(2) CVNPA shall report to the Commission in writing significant changes in plant organization, and transient or accident analyses, as described in the final hazards summary report.

(3) CVNPA shall submit to the Commission at least semi-annually, a written report of operating experience including:

a. A brief explanation of the cause of each unplanned shutdown of the reactor.

b. The amount of radioactive material removed from the reactor by releases, discharges, and shipments of radioactive waste material.

c. The levels of radioactivity measured on the site and at off-site monitoring stations.

d. A description of changes, tests, and experiments performed pursuant to Paragraph 50.59(a) of the Commission's rules and regulations.

e. A description of the principal maintenance performed on the facility.

f. A summary of reactor operation performed during the period, including an explanation of malfunctions of any equipment important to safety and periodic testing performed as required in the Technical Specifications.

Such reports shall be due within 60 days after the end of each reporting period.

4. Pursuant to § 50.60, Title 10, CFR, Ch. I, Part 50, the Commission has allocated to CVNPA for use in the operation of the reactor 124.8 kilograms of Uranium-235 contained in uranium at the isotopic ratios specified in the application. Estimated schedules of special nuclear material transfers to CVNPA and returns to the Commission are contained in Appendix B which is hereby incorporated in this license. Transfers by the Commission to CVNPA will be conditioned upon CVNPA's return to the Commission of material substantially in accordance with said Appendix B.

5. This license is effective as of the date of issuance and shall expire on November 27, 1967.

Date of issuance:

For the Atomic Energy Commission,

R. L. DOAN,  
Director,

Division of Reactor Licensing.

[F.R. Doc. 65-2309; Filed, Mar. 4, 1965;  
8:48 a.m.]

[Docket No. 50-170]

## ARMED FORCES RADIOBIOLOGY RESEARCH INSTITUTE

### Notice of Issuance of Facility License Amendment

Please take notice that the Atomic Energy Commission has issued, effective

as of the date of issuance, Amendment No. 8, set forth below, to Facility License No. R-84. The license authorizes the Armed Forces Radiobiology Research Institute (AFRRI) to operate its DASA-TRIGA Mark F nuclear reactor located on the National Naval Medical Center site in Bethesda, Md. The amendment authorizes AFRRI to use for start-up of the reactor either the sealed Antimony-Beryllium neutron source previously authorized, or a twenty (20) curie Polonium 210-Beryllium sealed neutron source, as described in the licensee's application for license amendment dated February 12, 1965.

The Commission has found that:

(1) The application for amendment complies with the requirements of the Atomic Energy Act of 1954, as amended, and the Commission's regulations set forth in Title 10, Ch. 1, CFR;

(2) The issuance of the amendment will not be inimical to the common defense and security or to the health and safety of the public;

(3) Prior public notice of proposed issuance of this amendment is not required since the amendment does not involve significant hazards considerations different from those previously evaluated.

Within fifteen (15) days from the date of publication of this notice in the *FEDERAL REGISTER*, the licensee may file a request for a hearing and any person whose interest may be affected by this proceeding may file a petition for leave to intervene. Requests for a hearing and petitions to intervene shall be filed in accordance with the provisions of the Commission's rules of practice, (10 CFR Part 2). If a request for a hearing or a petition for leave to intervene is filed within the time prescribed in this notice, the Commission will issue a notice of hearing or an appropriate order.

For further details with respect to this amendment see (1) the licensee's application for license amendment dated February 12, 1965, and (2) the Hazards Analysis prepared by the Test & Power Reactor Safety Branch of the Division of Reactor Licensing, both of which are available for public inspection at the Commission's Public Document Room, 1717 H Street NW., Washington, D.C. A copy of item (2) above may be obtained at the Commission's Public Document Room or upon request addressed to the Atomic Energy Commission, Washington, D.C., 20545—Attention: Director, Division of Reactor Licensing.

Dated at Bethesda, Md., this 26th day of February 1965.

For the Atomic Energy Commission,

SAUL LEVINE,  
Chief, Test and Power Reactor  
Safety Branch, Division of  
Reactor Licensing.

[License R-84; Amdt. 8]

License No. R-84, as amended, issued to Armed Forces Radiobiology Research Institute, is hereby amended in accordance with the application amendment dated February 12, 1965, in the following respects:

Paragraph 3.C. of License No. R-84 is revised in its entirety to read as follows:

C. Pursuant to the Act and Title 10, CFR Chapter I, Part 30, Licensing of Byproduct Material, to receive and possess a 20 curie

sealed Polonium 210-Beryllium neutron source and a sealed Antimony-Beryllium neutron source either of which may be used for reactor start-up; and to possess, but not to separate such byproduct material as may be produced by operation of the reactor.

This amendment is effective as of the date of issuance.

Date of issuance: February 26, 1965.

For the Atomic Energy Commission.

SAUL LEVINE,

Chief, Test and Power Reactor Safety  
Branch, Division of Reactor Li-  
censing.

[F.R. Doc. 65-2311; Filed, Mar. 4, 1965;  
8:48 a.m.]

## CIVIL AERONAUTICS BOARD

[Docket 15374]

### AEROVIAS SUD AMERICANA, INC.

#### Notice of Prehearing Conference on Route Renewal

Notice is hereby given that a pre-hearing conference in the above-entitled matter is assigned to be held on March 16, 1965, at 10:00 a.m., e.s.t. in Room 726, Universal Building, Connecticut and Florida Avenues NW., Washington, D.C., before Associate Chief Examiner Thomas L. Wrenn.

Dated at Washington, D.C., March 2, 1965.

[SEAL]

FRANCIS W. BROWN,  
Chief Examiner.

[F.R. Doc. 65-2329; Filed, Mar. 4, 1965;  
8:50 a.m.]

[Docket 15090]

### MOHAWK AIR LINES, INC.

#### Notice of Hearing on Service to Poughkeepsie, N.Y.

Notice is hereby given pursuant to the Federal Aviation Act of 1958, as amended, that a hearing in the above-entitled proceeding will commence on Tuesday, April 6, 1965, at 10 a.m. e.s.t. in Room 726, Universal Building, 1825 Connecticut Avenue NW., Washington, D.C., before the undersigned.

For information concerning the issues involved and other details in this proceeding, interested persons are referred to the prehearing conference report served on November 30, 1964, and other documents which are in the docket of this proceeding on file in the Docket Section of the Civil Aeronautics Board.

Dated at Washington, D.C., March 2, 1965.

[SEAL]

BARRON FREDRICKS,  
Hearing Examiner.

[F.R. Doc. 65-2330; Filed, Mar. 4, 1965;  
8:50 a.m.]

[Docket 13744]

### AIR EXPRESS INTERNATIONAL CORP. ET AL.

#### Notice of Proposed Approval

Application of Air Express International Corp., et al., for approval of con-

trol and interlocking relationships under section 408 and 409 of the Federal Aviation Act of 1958, as amended, Docket 13744.

Notice is hereby given, pursuant to the statutory requirements of section 408(b), that the undersigned intends to issue the attached order under delegated authority. Interested persons are hereby afforded a period of fifteen days from date of service within which to file comments or request a hearing with respect to the action proposed in the order.

Dated at Washington, D.C., March 1, 1965.

[SEAL]

J. W. ROSENTHAL,  
Chief, Routes and Agreements  
Division, Bureau of Economic  
Regulation.

#### ORDER APPROVING CONTROL AND INTERLOCKING RELATIONSHIPS

Issued under delegated authority:

By joint application filed June 29, 1962, as amended, October 15, 1964, Air Express International Corp. (AEI), a domestic and international air freight forwarder, and thirteen of its officers and directors request approval pursuant to sections 408 and 409 of the Federal Aviation Act of 1958, as amended (the Act), of certain control and interlocking relationships with Air Express International Agency (France), Air Express International Enterprises, Ltd., Air Express International (HK) Limited, Air Express International G.m.b.H., AEI Travel Service, Inc., and Air Express International (Belgium), S.A. Also, AEI and certain of its officers and directors request approval of certain additional interlocking relationships between AEI and Air Express International Agency, Inc. (AEI Agency).<sup>1</sup> In addition to the specific directorships and offices in AEI and its affiliated and subsidiary companies, approval is sought for the individual applicants to hold generally directorships and offices within the same system of affiliated and subsidiary companies of AEI. All of the interlocking relationships for which approval is specifically requested are set forth in the appendix hereto.<sup>2</sup>

Air Express International Agency (France) (AEI-France), in which AEI holds an 88 percent stock interest, is engaged in the business of international air freight forwarding and consolidation. It is also an International Air Transport Association (IATA) approved cargo sales agent and customs broker. Air Express International Enterprises, Ltd. (Enterprises), in which AEI holds a 100 percent stock interest, is a non-operating Swiss company which holds the stock (100 percent) of Air Express International (HK) Limited (AEI-Hong Kong). The latter company is engaged in the business of international air freight forwarding and consolidation and is also an IATA approved cargo sales agent.

Air Express International G.m.b.H. (AEI-Germany), which is also 100 percent controlled by AEI, is an IATA approved cargo sales agent and acts as a consolidator and break-bulk agent in West Germany for AEI and AEI-Hong Kong. AEI Travel Service, Inc. (AEI-Travel), which is wholly owned by AEI, is engaged in the business of travel service and ticket broker for surface and air passenger travel. Air Express International

<sup>1</sup> Control and certain interlocking relationships involving these two companies previously were approved by the Board by Order E-9067, dated Apr. 1, 1955, Docket 6847.

<sup>2</sup> By letter dated Dec. 18, 1964, AEI withdrew a motion requesting that certain information in the application be withheld from public disclosure. The motion will therefore be dismissed.

(Belgium) S.A. (AEI-Belgium), 100 percent owned by AEI, is engaged in the business of international air freight forwarding and consolidation with headquarters in Brussels. It is also an approved IATA cargo sales agent and a customs broker.

AEI states that it and the subsidiary companies which are the subject of the application constitute in effect one system; that instead of creating branch offices, such as AEI has elsewhere in the world for particular countries in which the subsidiaries are engaged, it was found (except in the case of AEI Travel) more expedient and advisable to operate through local companies; that the subsidiaries were set up in order to conform better with local laws, business practices and customs; that there are no outside interests whatsoever involved in any of the companies; and that the interests of the shipping public in general will be best served by permitting AEI to conduct business in the manner and through the companies discussed herein.

No objections to approval of the application or requests for a hearing have been filed.

Notice of intent to dispose of the application without a hearing has been published in the FEDERAL REGISTER, and a copy of such notice has been furnished by the Board to the Attorney General not later than the day following the date of such publication, both in accordance with the requirements of section 408(b) of the Act.

Upon consideration of the application, it is concluded that AEI-France, AEI-Hong Kong, AEI-Germany, and AEI-Belgium are persons engaged in a phase of aeronautics within the meaning of section 408 of the Act by reason of their IATA cargo sales agency activities; that AEI Travel is likewise a person engaged in a phase of aeronautics by reason of its air transportation sales activities; and that, therefore, AEI's control of these companies is subject to section 408 of the Act. As Enterprises is a non-operating company which merely holds the stock of AEI-Hong Kong and as there is no indication that the intermediate company was established to avert any regulatory objective, jurisdiction will not be assumed over AEI's control of this company.<sup>3</sup> Therefore, to the extent that the application requests approval of this relationship, it will be dismissed. However, it has been further concluded that such relationships do not affect the control of an air carrier directly engaged in the operation of aircraft in air transportation, do not result in creating a monopoly, and do not restrain competition. Furthermore, no person disclosing a substantial interest in this proceeding is currently requesting a hearing and it is found that the public interest does not require a hearing. The control relationships presented by this application are similar to others which the Board has approved and essentially do not present any new substantive issues. It therefore appears that approval of the control relationships would not be inconsistent with the public interest.<sup>4</sup>

It is also concluded that interlocking relationships within the scope of section 409(a) of the Act will exist between AEI and the various companies discussed above by reason of the holding by AEI's officers and directors of the positions described in the appendix. It is further concluded that the parties have made a showing in the form and manner prescribed that such interlocking relationships,

<sup>3</sup> Should the activities of Enterprises be expanded, new issues would be raised which could be resolved only upon the filing of a further application for prior approval by the Board.

<sup>4</sup> It has been decided not to enforce the doctrine expressed in Sherman Control and Interlocking Relationships, 15 CAB 876 (1952), and to consider the application on its merits.

## APPENDIX

## INTERLOCKING RELATIONSHIPS, DOCKET 13744

except as hereinafter noted, and any future relationships involving the same individuals within the same system of affiliated and subsidiary companies of AEI will not adversely affect the public interest. For the reasons discussed above, that portion of the application which requests section 409 approval of the holding by Mr. Alvin B. Beck of the positions of president and director of Enterprises while holding the same positions with AEI will be dismissed. We are deferring for further consideration action on that portion of the application which requests approval of the holding by Clarence M. Belinn, who also is president, general manager and a director of Los Angeles Airways, Inc. (Airways),<sup>2</sup> of the position of director of AEI Travel while serving as a director of AEI.

Pursuant to authority duly delegated by the Board in the Board's Regulations, 14 CFR 385.13 and 385.3 it is found that, subject to the foregoing, the instant control relationships should be approved under section 408 (b) of the Act, without a hearing, and that the interlocking relationships, except to the extent noted herein, should be approved under section 409.

## Accordingly, it is ordered:

1. That the control by AEI of AEI-France, AEI-Hong Kong, AEI-Germany, AEI-Travel, and AEI-Belgium be and it hereby is approved pursuant to section 408 of the Act;

2. That subject to the provisions of Part 251 of the Board's economic regulations, as now in effect or as hereafter amended, the interlocking relationships, except as noted in paragraphs 4 and 5 hereof, involving the officers and directors of AEI as set forth in the appendix hereto be and they hereby are approved;

3. That the individual applicants, except Mr. Belinn, be and they hereby are authorized to hold, in addition to the above-described positions, such other positions with AEI and the affiliated and subsidiary companies named in the appendix to which they may be hereafter elected or appointed;

4. That action on that portion of the application in Docket 13744 which requests approval of Mr. Belinn's interlocking relationships involving AEI-Travel be and it hereby is deferred;

5. That that portion of the application which requests approval of control and interlocking relationships involving Enterprises be and it hereby is dismissed; and

6. That, except to the extent granted, specifically dismissed, or deferred herein, the application and motion to withhold from public disclosure in Docket 13744 be and they hereby are dismissed.

Persons entitled to petition the Board for review of this Order pursuant to the Board's Regulations, 14 CFR 385.50, may file such petitions within five days after the date of service of this Order.

This Order shall be effective and become the action of the Civil Aeronautics Board upon expiration of the above period unless within such period a petition for review thereof is filed, or the Board gives notice that it will review this Order on its own motion.

By J. W. Rosenthal,  
Chief, Routes and Agreements Division,  
Bureau of Economic Regulation.

[SEAL] HAROLD R. SANDERSON,  
Secretary.

<sup>2</sup> Mr. Belinn's relationship with AEI while holding the same positions with Airways was approved by Order E-15359, dated June 9, 1960, Docket 10952.

|                           | Air Express<br>International<br>Corp. | Air Express<br>International<br>Agency<br>(France) | Air Express<br>International<br>Enter-<br>prises, Ltd. | Air Express<br>Inter-<br>national<br>(HK)<br>Limited | AEI Travel<br>Service<br>Inc.   | Air Express<br>Inter-<br>national<br>Agency, Inc. | Air Express<br>Inter-<br>national<br>(Belgium),<br>S. A. |
|---------------------------|---------------------------------------|----------------------------------------------------|--------------------------------------------------------|------------------------------------------------------|---------------------------------|---------------------------------------------------|----------------------------------------------------------|
| Chester M. Myer.          | Chairman of board and director.       | Director.                                          |                                                        | Director.                                            | Chairman of board and director. | Chairman of board and director.                   | President of board of directors and director.            |
| Alvin B. Beck.            | President and director.               | Vice chairman of board and director.               | President and director.                                | do.                                                  | President and director.         | President and director.                           | President and director.                                  |
| Wickliffe Strev.          | Director.                             |                                                    |                                                        |                                                      | Director.                       |                                                   |                                                          |
| Allen Russell.            | do.                                   |                                                    |                                                        |                                                      | do.                             | Director.                                         |                                                          |
| Morton Deitch.            | do.                                   |                                                    |                                                        | Director.                                            | do.                             | do.                                               |                                                          |
| Henry M. Marr.            | do.                                   |                                                    |                                                        |                                                      | do.                             |                                                   |                                                          |
| Clarence M. Belinn.       | do.                                   |                                                    |                                                        |                                                      | do.                             |                                                   |                                                          |
| John E. Muhlfeld.         | Vice president.                       |                                                    |                                                        |                                                      | Vice president.                 | Vice president.                                   |                                                          |
| Stanley D. Ver Nooy, Jr.  | do.                                   |                                                    |                                                        |                                                      | do.                             | do.                                               |                                                          |
| Arthur D. Hussey.         | do.                                   |                                                    |                                                        |                                                      | do.                             | do.                                               |                                                          |
| Robert S. Johnstone.      | Secretary and treasurer.              |                                                    |                                                        | Director.                                            | Secretary and treasurer.        | Secretary and treasurer.                          | Secretary                                                |
| Wendell R. Stevens.       | Vice president.                       |                                                    |                                                        |                                                      | Vice president.                 | Vice president.                                   |                                                          |
| Arthur M. Stephenson, Jr. | do.                                   |                                                    |                                                        |                                                      | do.                             | do.                                               |                                                          |

<sup>1</sup> Relationship approved by Order E-9067, dated Apr. 1, 1955. Docket 6847.

[P.R. Doc. 65-2328; Filed, Mar. 4, 1965; 8:50 a.m.]

## FEDERAL COMMUNICATIONS COMMISSION

[Docket Nos. 15826—15828; FCC 65M-245]

### KXYZ TELEVISION, INC. ET AL.

#### Order Regarding Procedural Dates

In re applications of KXYZ Television, Inc., Houston, Tex., Docket No. 15826, File No. BPCT-3220; Crest Broadcasting Co., Houston, Tex., Docket No. 15827, File No. BPCT-3302; Warner Bros. Pictures, Inc., Houston, Tex., Docket No. 15828, File No. BPCT-3464; for construction permit for new television broadcast station (Channel 29).

A prehearing conference having been held on March 1, 1965, and it appearing from the record made therein that certain agreements were reached and certain rulings made which should be formalized by order;

It is ordered, This 1st day of March 1965, that:

(1) The direct case of Warner Bros. Pictures, Inc. on issues No. 5, 6, and 7 shall be presented in the form of sworn, written exhibits, said exhibits to be exchanged on or before March 11, 1965;

(2) The parties' direct affirmative cases on issues No. 1, 2, 3, 4, 8, 9, and 10, shall be presented primarily in the form of sworn written exhibits, the said exhibits to be exchanged on or before April 28, 1965, *Provided, however*, That the said direct cases may be supplemented by oral testimony;

(3) A hearing session shall be convened on April 1, 1965 at 10:00 a.m., at the offices of the Commission at Washington, D.C. for the purpose of offering into evidence the Warner Bros.' exhibits directed to issues No. 5, 6, and 7, and for entertaining any objections thereto; and

(4) A hearing session shall be convened on May 26, 1965 at 10:00 a.m., in the offices of the Commission at Washington, D.C. for the purpose of offering into evidence the parties' exhibits directed to issues No. 1, 2, 3, 4, 8, 9, and 10, and for entertaining any objections thereto.

Released: March 2, 1965.

FEDERAL COMMUNICATIONS COMMISSION.

[SEAL] BEN F. WAPLE,  
Secretary.

[P.R. Doc. 65-2316; Filed, Mar. 4, 1965; 8:48 a.m.]

[Docket No. 15860; FCC 65M-237]

### AMERICAN TELEPHONE AND TELEGRAPH CO.

#### Order Scheduling Hearing

In the matter of American Telephone and Telegraph Company charges, practices, classifications, and regulations for and in connection with the transmission of binary teletypewriter signals at rates up to 150 bauds; Docket No. 15860.

It is ordered, This 26th day of February 1965, that Arthur A. Gladstone

shall serve as the presiding officer in the above-entitled proceeding; that the hearings therein shall commence at 10:00 a.m. on March 31, 1965; and that a prehearing conference shall be convened at 9:00 a.m. on March 15, 1965: And, it is further ordered, That all proceedings shall be held in the Offices of the Commission, Washington, D.C.

Released: February 26, 1965.

FEDERAL COMMUNICATIONS  
COMMISSION,  
[SEAL] BEN F. WAPLE,  
Secretary.

[F.R. Doc. 65-2314; Filed, Mar. 4, 1965;  
8:48 a.m.]

[Docket Nos. 15815, 15816; FCC 65M-244]

# FLATHEAD VALLEY BROADCASTERS (KOFI) AND GARDEN CITY BROADCASTING, INC. (KYSS)

## Order Continuing Hearing

In re applications of Leslie L. Sterling and William H. Patterson, doing business as Flathead Valley Broadcasters (KOFI), Kalispell, Mont., Docket No. 15815, File No. BP-16369; Garden City Broadcasting, Inc. (KYSS), Missoula, Mont., Docket No. 15816, File No. BP-16400; for construction permits.

The Hearing Examiner having under consideration the change of date for commencement of hearing;

It appearing, that a prehearing conference was held on this date at which time further proceedings were discussed with the result that a change in the date for commencement of hearing was agreed upon:

It is ordered, This 26th day of February 1965, that the date for commencement of hearing is changed from March 31, 1965 to April 28, 1965.

Released: March 1, 1965.

FEDERAL COMMUNICATIONS  
COMMISSION,  
[SEAL] BEN F. WAPLE,  
Secretary.

[F.R. Doc. 65-2315; Filed, Mar. 4, 1965;  
8:48 a.m.]

[Docket No. 15745; FCC 65 M-243]

# MIDWEST TELEVISION, INC. (WMBD-FM)

## Order for New Hearing Date

In re application of Midwest Television, Inc. (WMBD-FM), Peoria, Ill., Docket No. 15745, File No. BPH-4277; for construction permit.

It appearing, that the above-captioned application was originally consolidated for hearing in a comparative proceeding with the mutually exclusive application of The Peoria Journal Star, Inc., and the hearing was scheduled to commence on February 17, 1965;

It further appearing, that the Hearing Examiner, on his own motion, released an order on February 10, 1965, postponing the hearing to a later date to be fixed

by further order, pending action by Review Board on a Joint Request of both applicants for approval for an agreement looking toward amendment of the Journal Star application and its return to the processing line; and

It further appearing, that the Review Board has approved the Joint Request and the Examiner has on this date issued an order granting an amendatory petition of the Journal Star and returning the amended application to the processing line so that there is no impediment to proceeding to hearing on the remaining application of Midwest Television, Inc.;

Accordingly, it is ordered, This 1st day of March 1965, on the Examiner's own motion, that hearing on the application of Midwest Television, Inc., is rescheduled for March 4, 1965, at 10:00 a.m., in the offices of the Commission, Washington, D.C.

It is further ordered, That the prehearing conference originally scheduled for January 21, 1965, but postponed without date by an order of the Hearing Examiner released January 14, 1965, is cancelled since removal of the Journal Star application from hearing and the resultant mooted of the comparative issues appear to obviate the need for a prehearing conference on the remaining application.

Released: March 1, 1965.

FEDERAL COMMUNICATIONS  
COMMISSION,  
[SEAL] BEN F. WAPLE,  
Secretary.

[F.R. Doc. 65-2317; Filed, Mar. 4, 1965;  
8:48 a.m.]

[Docket No. 15829; FCC 65 M-246]

# SOUTHWESTERN BELL TELEPHONE CO.

## Statement and Order After Prehearing Conference

In the matter of the application of Southwestern Bell Telephone Co., Docket No. 15829, File No. P-C-5706; for a certificate under section 221(a) of the Communications Act of 1934, as amended, to acquire the telephone plant and properties of the DeSoto Mutual Telephone Co., located in and around the community of DeSoto, Kans.

At today's prehearing conference, among other things the following schedule was directed:

Exchange of proposed exhibits; and list of witnesses to extent feasible—April 19, 1965.

Hearing—May 3, 1965. (Rescheduled from March 22, 1965.)

So ordered, This 1st day of March 1965.

Released: March 2, 1965.

FEDERAL COMMUNICATIONS  
COMMISSION,  
[SEAL] BEN F. WAPLE,  
Secretary.

[F.R. Doc. 65-2318; Filed, Mar. 4, 1965;  
8:49 a.m.]

[Docket Nos. 15803—15806; FCC 65M-232]

# JOHN N. TRAXLER ET AL.

## Order Continuing Hearing

In re applications of John N. Traxler and Alvera M. Traxler, Husband and Wife, Delray Beach, Fla., Docket No. 15803, File No. BPH-3485; Sunshine Broadcasting Company, Delray Beach, Fla., Docket No. 15804, File No. BPH-4174; WLOD, Inc., Pompano Beach, Fla., Docket No. 15805, File No. BPH-4253; BOCA Broadcasters, Inc., Pompano Beach, Fla., Docket No. 15806, File No. BPH-4605; for construction permits.

To formalize the agreements and rulings made on the record at a prehearing conference held on February 25, 1965 in the above-entitled matter concerning the future conduct of this proceeding:

It is ordered, This 25th day of February 1965, that:

Exchange of exhibits relative to the 307(b) issue and engineering considerations is scheduled for April 5, 1965;

Final exchange, reply exhibit exchange, and notification of witnesses with respect to 307(b) and engineering issues is scheduled for May 3, 1965; and

Hearing presently scheduled for March 29, 1965 is rescheduled for May 18, 1965.

Released: February 26, 1965.

FEDERAL COMMUNICATIONS  
COMMISSION,  
[SEAL] BEN F. WAPLE,  
Secretary.

[F.R. Doc. 65-2319; Filed, Mar. 4, 1965;  
8:49 a.m.]

# FEDERAL MARITIME COMMISSION

## CUNARD STEAM SHIP CO., LTD., AND ANCHOR LINE, LTD.

## Notice of Agreement Filed for Approval

Notice is hereby given that the following Agreements have been filed with the Commission for approval pursuant to section 15 of the Shipping Act, 1916, as amended (39 Stat. 733, 75 Stat. 763, 46 U.S.C. 814).

Interested parties may inspect and obtain a copy of the agreement(s) at the Washington office of the Federal Maritime Commission, 1321 H Street NW., Room 301; or may inspect agreements at the offices of the District Managers, New York, N.Y., New Orleans, La., and San Francisco, Calif. Comments with reference to an agreement including a request for hearing, if desired, may be submitted to the Secretary, Federal Maritime Commission, Washington, D.C., 20573, within 10 days after publication of this notice in the FEDERAL REGISTER. A copy of any such statement should also be forwarded to the party filing the agreement (as indicated hereinafter) and the comments should indicate that this has been done.

Notice of agreement filed for approval by:

Anchor Line Ltd. and Cunard Steam Ship Co., Ltd., 25 Broadway, New York, N.Y., 10004.

Agreement 9430, between Cunard Steam Ship Co., Ltd. (Cunard Line) and

Anchor Line Ltd. (Anchor Line), covers an arrangement whereby Cunard Line shall perform the usual services as ship's agent (loading, unloading, vessel husbanding, solicitation of cargo and advertising, etc.) for vessels of Anchor Line at ports in England, France and at U.S. North Atlantic ports, and Anchor Line shall perform similar services for vessels of Cunard Line at ports in Scotland, under terms and conditions set forth in the agreement. Agreement 9430, upon approval, will supersede and cancel approved Agreement 8419 covering a similar arrangement at the same ports with respect to the same trades.

Dated: March 4, 1965.

By order of the Federal Maritime Commission.

THOMAS LISI,  
Secretary.

[F.R. Doc. 65-2396; Filed, Mar. 4, 1965;  
11:53 a.m.]

## SECURITIES AND EXCHANGE COMMISSION

[File No. 24FW-1350]

### GOLD SEAL INTERNATIONAL A AND C, INC.

#### Notice and Order for Hearing

FEBRUARY 25, 1965.

I. Gold Seal International A & C, Inc. (issuer), 5446 South Washington Street, Tacoma, Wash., incorporated in the State of Delaware on July 29, 1964, filed with the Commission on November 5, 1964, a notification on Form 1-A relating to a proposed offering of 150,000 shares of its common stock of a par value of 50 cents per share at a price of \$2.00 per share, for an aggregate offering price of \$300,000, for the purpose of obtaining an exemption from the registration provisions of the Securities Act of 1933, as amended, pursuant to the provisions of section 3(b) thereof and Regulation A promulgated thereunder.

II. The Commission, on December 22, 1964, issued an order pursuant to Rule 261 of the general rules and regulations of the Securities Act of 1933, as amended, temporarily suspending the issuer's exemption under Regulation A, and affording to any person having any interest therein an opportunity to request a hearing. A written request for a hearing has been received by the Commission.

The Commission deems it necessary and appropriate that a hearing be held for the purpose of determining whether it should vacate the temporary suspension order or enter an order of permanent suspension in this matter.

It is hereby ordered, Pursuant to Rule 261 of the general rules and regulations under the Securities Act of 1933, as amended, that a hearing be held on March 22, 1965, at 10:00 a.m., in Room 104 of the U.S. Court House Building located at Southwest Broadway and Madison, Portland, Oreg., with respect to the matters set forth in section II of the order dated December 22, 1964, temporarily suspending the issuer's ex-

emption under Regulation A, without prejudice, however, to the specification of additional issues which may be presented in the proceedings.

III. It is further ordered, That any officer or officers of the Commission designated by it for that purpose shall preside at the hearing; that any officer or officers so designated to preside at any such hearing are hereby authorized to exercise all the powers granted to the Commission under sections 19(b), 21 and 22(c) of the Securities Act of 1933, as amended, and to hearing officers under the Commission's rules of practice.

It is further ordered, That the Secretary of the Commission shall serve a copy of this order by certified mail on Gold Seal International A & C, Inc., and that notice of the entering of this order shall be given to all persons by general release of the Commission and by publication in the FEDERAL REGISTER. Any person who desires to be heard or otherwise wishes to participate in the hearing shall file with the Commission on or before March 19, 1965, a request relative thereto as provided in Rule 9(c) of the Commission's rules of practice.

By the Commission.

[SEAL] ORVAL L. DuBOIS,  
Secretary.

[F.R. Doc. 65-2292; Filed, Mar. 4, 1965;  
8:45 a.m.]

## SMALL BUSINESS ADMINISTRATION

[Delegation of Authority 30]

### SOUTHEASTERN AREA

#### Delegation of Authority To Conduct Program Activities in Regional Offices

I. Pursuant to the authority delegated to the Area Administrator by Delegation of Authority 30 (Revision 10), 30 P.R. 972, the following authority is hereby re-delegated to the regional directors of the Atlanta, Jackson, and Miami Regional Offices within the Southeastern Area:

A. Financial assistance. 1. To approve business and disaster loans not exceeding \$350,000 (SBA's share).

2. To decline business and disaster loans of any amount.

3. To disburse approved loans.

4. To enter into business loan and disaster loan participation agreement with banks.

5. To approve section 502 loans as follows:

a. Direct loans not exceeding \$50,000.

b. Participation loans when the bank's share is 10 percent or more—not to exceed \$100,000.

6. To decline loan applications in the categories described in Item I.A.5., above.

7. To execute loan authorizations for Washington approved loans and for loans approved under delegated authority, said execution to read as follows:

(Name), Administrator  
By \_\_\_\_\_  
(Name)  
Regional Director,  
(City)

8. To cancel, reinstate, modify and amend authorizations for business or disaster loans.

9. To extend the disbursement period on all loan authorizations or undisbursed portions of loans.

10. To approve, when requested, in advance of disbursement, conformed copies of notes and other closing documents; and certify to the participating bank that such documents are in compliance with the participation authorization.

11. To approve service charges by participating bank not to exceed 2 percent per annum on the outstanding principal balance of construction loans and loans involving accounts receivable and inventory financing.

12. To establish disaster field offices upon receipt of advice of the designation of a disaster area; to advise on the making of disaster loans; to appoint as a processing representative any bank in the disaster area; and to close disaster field offices when no longer advisable to maintain such offices.

13. To take all necessary actions in connection with the administration, servicing, collection and liquidation of all loans and other obligations or assets, including collateral purchased; and to do and perform and to assent to the doing and performance of, all and every act and thing requisite and proper to effectuate the granted powers, including without limiting the generality of the foregoing:

a. The assignment, endorsement, transfer and delivery (but in all cases without representation, recourse or warranty) of notes, claims, bonds, debentures, mortgages, deeds of trust, contracts, patents and applications therefor, licenses, certificates of stock and of deposit, and any other liens, powers, rights, charges on and interest in or to property of any kind, legal and equitable, now or hereafter held by the Small Business Administration or its Administrator;

b. The execution and delivery of contracts of sale or of lease or sublease, quit-claim, bargain and sale or special warranty deeds, bills of sale, leases, subleases, assignments, subordinations, releases (in whole or part) of liens, satisfaction pieces, affidavits, proofs of claim in bankruptcy or other estates and such other instruments in writing as may be appropriate and necessary to effectuate the foregoing.

c. The approval of bank applications for use of liquidity privilege under the loan guaranty plan.

B. Reserved.

C. Procurement and management assistance (only to the Regional Director, Atlanta). 1. To approve applications for Certificates of Competency received from small business concerns which are located within the geographical jurisdiction of the area office when the total value of the contract to be awarded as a result of the issuance of a COC does not exceed \$100,000.

2. To deny an application for a Certificate of Competency when the regional director agrees with an adverse survey report as to production or credit, unless application for an SBA loan is being filed, which if approved, might change the credit aspects of the case.

D. Administration. 1. To advertise regarding the public sale of (a) collateral in connection with the liquidation of loans, and (b) acquired property.\*\*

2. To purchase reproductions of loan documents, chargeable to the revolving fund, requested by United States Attorneys in foreclosure cases.

3. To (a) purchase all office supplies and expendable equipment, including all desk top items, and rent regular office equipment; (b) contract for repair and maintenance of equipment and furnishings; (c) contract for services required in setting up and dismantling and moving SBA exhibits and (d) issue Government bills of lading.

4. In connection with the establishment of Disaster Loan Offices, to (a) obligate Small Business Administration to reimburse General Services Administration for the rental of office space; (b) rent office equipment; and (c) procure (without dollar limitation) emergency supplies and materials.

5. To rent motor vehicles from the General Services Administration and to rent garage space for the storage of such vehicles when not furnished by this Administration.

E. Eligibility determinations. To determine eligibility of applicants for assistance under any program of the Agency in accordance with Small Business Administration standards and policies.

F. Size determinations. To make initial size determinations in all cases within the meaning of the Small Business Size Standards Regulations, as amended, and further, to make product classification decisions for financial assistance purposes only. Product classification decisions for procurement purposes are made by contracting officers.

II. To the Regional Directors of Birmingham, Alabama; Charlotte, North Carolina; Columbia, South Carolina; Louisville, Kentucky; Jacksonville, Florida; and Nashville, Tennessee, within the Southeastern Area, the following authority is hereby redelegated:

1. To approve the following:
  - a. Direct loans not exceeding \$100,000.
  - b. Participation loans not exceeding \$250,000 (SBA share).
  - c. Simplified bank participation loans not exceeding \$350,000 (SBA share).
  - d. Simplified early maturities participation loans not exceeding \$350,000 (SBA share).
  - e. Direct disaster loans not exceeding \$350,000.
  - f. Participation disaster loans not exceeding \$350,000 (SBA share).

2. To decline as follows:
  - a. Business loans not exceeding \$250,000.
  - b. Disaster loans not exceeding \$350,000.

3. To disburse approved loans.

4. Items I.A. 4 and 7 through 11, above.

5. Item I.A.13, above—only the authority for servicing, administration and collection, including subitems a, b, and c.

6. To (a) make emergency purchases chargeable to the administrative expense fund, not in excess of \$25 in any one ob-

ject class in any one instance but not more than \$50 in any one month for total purchases in all object classes; (b) make purchases not in excess of \$10 in any one instance for "one-time use items" not carried in stock subject to the total limitations set forth in (a) of this paragraph; (c) to contract for the repair and maintenance of equipment and furnishings in an amount not to exceed \$25 in any one instance; and (d) purchase printing from the General Services Administration where centralized reproduction facilities have been established by GSA.

7. Items I.D. 4 and 5, above.

8. Item I.E., above. (Eligibility Determinations for Financial Assistance only.)

9. Item I.F., above. (Size Determinations for Financial Assistance only.)

III. The specific authority delegated in subsection I.A.12; subsections I.C.1 and 2 and subsection I.D.1 herein cannot be redelegated. These are indicated by asterisks (\*\*). The specific authority in the remaining subsections may be redelegated to appropriate subordinate positions within the regions.

IV. All authority delegated herein may be exercised by any Small Business Administration employee designated as Acting Regional Director.

V. All authority previously delegated is hereby rescinded without prejudice to actions taken under such previous delegations of authority prior to the date hereof.

Effective date: February 1, 1965.

JAMES F. HOLLINGSWORTH,  
Acting Area Administrator,  
Southeastern Area.

[F.R. Doc. 65-2312; Filed, Mar. 4, 1965;  
8:48 a.m.]

[Delegation of Authority 30]

## NEW YORK AREA

### Delegation of Authority To Conduct Program Activities in Regional Offices

I. Pursuant to the authority delegated to the Area Administrator by Delegation of Authority 30 (Revision 10), 30 F.R. 972, the following authority is hereby redelegated to the Regional Director of New York Regional Office within the New York Area:

A. Financial assistance. 1. To approve business and disaster loans not exceeding \$350,000 (SBA's share).

2. To decline business and disaster loans of any amount.

3. To disburse approved loans.

4. To enter into business loan and disaster loan participation agreement with banks.

5. To approve section 502 loans as follows:

a. Direct loans not exceeding \$50,000.

b. Participation loans when the bank's share is 10 percent or more—not to exceed \$100,000.

6. To decline loan applications in the categories described in Item I.A.5., above.

7. To execute loan authorizations for Washington approved loans and for

loans approved under delegated authority, said execution to read as follows:

(Name), Administrator

By \_\_\_\_\_

(Name)

Regional Director

(City)

8. To cancel, reinstate, modify and amend authorizations for business or disaster loans.

9. To extend the disbursement period on all loan authorizations or undisbursed portions of loans.

10. To approve, when requested, in advance of disbursement, conformed copies of notes and other closing documents; and certify to the participating bank that such documents are in compliance with the participation authorization.

11. To approve service charges by participating bank not to exceed 2 percent per annum on the outstanding principal balance of construction loans and loans involving accounts receivable and inventory financing.

12. To establish disaster field offices upon receipt of advice of the designation of a disaster area; to advise on the making of disaster loans; to appoint as a processing representative any bank in the disaster area; and to close disaster field offices when no longer advisable to maintain such offices. \* \*

13. To take all necessary actions in connection with the administration, servicing, collection and liquidation of all loans and other obligations or assets, including collateral purchased; and to do and perform and to assent to the doing and performance of, all and every act and thing requisite and proper to effectuate the granted powers, including without limiting the generality of the foregoing:

a. The assignment, endorsement, transfer and delivery (but in all cases without representation, recourse or warranty) of notes, claims, bonds, debentures, mortgages, deeds of trust, contracts, patents and applications therefor, licenses, certificates of stock and of deposit, and any other liens, powers, rights, charges on and interest in or to property of any kind, legal and equitable, now or hereafter held by the Small Business Administration or its Administrator;

b. The execution and delivery of contracts of sale or of lease or sublease, quit-claim, bargain and sale or special warranty deeds, bills of sale, leases, subleases, assignments, subordinations, releases (in whole or part) of liens, satisfaction pieces, affidavits, proofs of claim in bankruptcy or other estates and such other instruments in writing as may be appropriate and necessary to effectuate the foregoing.

c. The approval of bank applications for use of liquidity privilege under the loan guaranty plan.

B. Reserved.

C. Procurement and management assistance. 1. To approve applications for Certificates of Competency received from small business concerns which are located within the geographical jurisdiction of their area offices when the total value of the contract to be awarded as a result of the issuance of a COC does not exceed \$100,000.\*\*

2. To deny an application for a Certificate of Competency when the regional director agrees with an adverse survey report as to production or credit, unless application for an SBA loan is being filed, which if approved, might change the credit aspects of the case.\*

D. Administration. 1. To advertise regarding the public sale of (a) collateral in connection with the liquidation of loans, and (b) acquired property.\*\*

2. To purchase reproductions of loan documents, chargeable to the revolving fund, requested by United States Attorneys in foreclosure cases.

3. To (a) purchase all office supplies and expendable equipment, including all desk top items, and rent regular office equipment; (b) contract for repair and maintenance of equipment and furnishings; (c) contract for services required in setting up and dismantling and moving SBA exhibits and (d) issue Government bills of lading.

4. In connection with the establishment of Disaster Loan Offices, to (a) obligate Small Business Administration to reimburse General Services Administration for the rental of office space; (b) rent office equipment; and (c) procure (without dollar limitation) emergency supplies and materials.

5. To rent motor vehicles from the General Services Administration and to rent garage space for the storage of such vehicles when not furnished by this Administration.

E. Eligibility determinations. To determine eligibility of applicants for assistance under any program of the Agency in accordance with Small Business Administration standards and policies.

F. Size determinations. To make initial size determinations in all cases within the meaning of the Small Business Size Standards Regulations, as amended, and further, to make product classification decisions for procurement purposes only. Product classification decisions for procurement purposes are made by contracting officers.

II. To the Regional Director of Syracuse, within the New York Area, the following authority is hereby redelegated:

1. To approve the following:
  - a. Direct loans not exceeding \$100,000.
  - b. Participation loans not exceeding \$250,000. (SBA share)
  - c. Simplified bank participation loans not exceeding \$350,000. (SBA share)
  - d. Simplified early maturities participation loans not exceeding \$350,000. (SBA share)
  - e. Direct disaster loans not exceeding \$350,000.
  - f. Participation disaster loans not exceeding \$350,000. (SBA share)
2. To decline as follows:
  - a. Business loans not exceeding \$250,000.
  - b. Disaster loans not exceeding \$350,000.
3. To disburse approved loans.
4. Items I.A.4 and 7 through 11, above.
5. Item I.A.13, above—only the authority for servicing, administration and collection, including subitems a, b, and c.
6. To (a) make emergency purchases chargeable to the administrative expense

fund, not in excess of \$25 in any one object class in any one instance but not more than \$50 in any one month for total purchases in all object classes; (b) make purchases not in excess of \$10 in any one instance for "one-time use items" not carried in stock subject to the total limitations set forth in (a) of this paragraph; (c) to contract for the repair and maintenance of equipment and furnishings in an amount not to exceed \$25 in any one instance; and (d) purchase printing from the General Services Administration where centralized reproduction facilities have been established by GSA.

7. Items I.D.4 and 5, above.

8. Item I.E. above. (Eligibility Determinations for Financial Assistance only.)

9. Item I.F. above. (Size Determinations for Financial Assistance only.)

III. Reserved.

IV. The specific authority delegated in subsection I.A.12; subsections I.C.1 and 2 and subsection I.D.1 herein cannot be redelegated. These are indicated by asterisks (\*\*). The specific authority in the remaining subsections may be redelegated to appropriate subordinate positions within the regions.

V. All authority delegated herein may be exercised by any Small Business Administration employee designated as Acting Regional Director.

VI. All authority previously delegated is hereby rescinded without prejudice to actions taken under such previous delegations of authority prior to the date hereof.

Effective date: February 1, 1965.

CHARLES H. KRIGER,  
Acting Area Administrator,  
New York Area.

[F.R. Doc. 65-2313; Filed, Mar. 4, 1965;  
8:48 a.m.]

## INTERSTATE COMMERCE COMMISSION

### FOURTH SECTION APPLICATIONS FOR RELIEF

MARCH 2, 1965.

Protests to the granting of an application must be prepared in accordance with Rule 1.40 of the general rules of practice (49 CFR 1.40) and filed within 15 days from the date of publication of this notice in the FEDERAL REGISTER.

#### LONG-AND-SHORT HAUL

FSA No. 39609—Cement to Fargo, N. Dak. Filed by Great Northern Railway Co. (No. 1092), and Northern Pacific Railway Co. (No. 137), jointly for themselves and interested rail carriers. Rates on cement, hydraulic, masonry, natural or Portland, in bulk, in carloads, from East Helena, Montana City, and Trident, Mont., to Fargo, N. Dak.

Grounds for relief—Market competition.

Tariffs—Supplement 19 to Great Northern Railway Co. tariff I.C.C. A-

9159 and supplement 11 to Northern Pacific Railway Co. tariff I.C.C. 10036.

FSA No. 39610—Grain sorghum flour to gulf ports for export. Filed by Southwestern Freight Bureau, Agent (No. B-8664), for interested rail carriers. Rates on grain sorghum flour, in carloads, from points in Arkansas, Colorado, Iowa, Kansas, Missouri, Nebraska, Oklahoma, Texas, and Wyoming, to gulf ports, Pensacola, Fla., to Corpus Christi, Tex. (for export).

Grounds for relief—Rate relationship.

Tariffs—Supplement 45 to Atchafalaya, Topeka and Santa Fe Railway Co. tariff I.C.C. 14945 and 6 other schedules named in the application.

FSA No. 39611—Commodities between points in Texas. Filed by Texas-Louisiana Freight Bureau, Agent (No. 533), for interested rail carriers. Rates on cottonseed and soybean oil, in tank carloads, from, to and between points in Texas, over interstate routes through adjoining States.

Grounds for relief—Intrastate rates and maintenance of rates from and to points in other States not subject to the same conditions.

Tariff—Supplement 27 to Texas-Louisiana Freight Bureau, Agent, tariff I.C.C. 998.

FSA No. 39613—Phosphatic fertilizer solution to points in WTL territory. Filed by Trans-Continental Freight Bureau, Agent (No. 425), for interested rail carriers. Rates on phosphatic fertilizer solution, in tank carloads, from Silver Bow, Mont., to points in western trunk-line territory.

Grounds for relief—Market competition, short-line distance formula and grouping.

Tariff—Supplement 44 to Trans-Continental Freight Bureau, Agent, tariff I.C.C. 1701.

#### AGGREGATE-OF-INTERMEDIATES

FSA No. 39612—Commodities between points in Texas. Filed by Texas-Louisiana Freight Bureau, Agent (No. 534), for interested rail carriers. Rates on copper slag, in carloads, and cottonseed and soybean oil, in tank carloads, from, to and between points in Texas, over interstate routes through adjoining States.

Grounds for relief—Maintenance of depressed rates published to meet intrastate competition without use of such rates as factors in constructing combination rates.

Tariff—Supplement 27 to Texas-Louisiana Freight Bureau, Agent, tariff I.C.C. 998.

By the Commission.

[SEAL] BERTHA F. ARMES,  
Acting Secretary.

[F.R. Doc. 65-2296; Filed, Mar. 4, 1965;  
8:46 a.m.]

[Notice 1133]

### MOTOR CARRIER TRANSFER PROCEEDINGS

MARCH 2, 1965.

Synopses of orders entered pursuant to section 212(b) of the Interstate Com-

merce Act, and rules and regulations prescribed thereunder (49 CFR Part 179), appear below:

As provided in the Commission's special rules of practice any interested person may file a petition seeking reconsideration of the following numbered proceedings within 20 days from the date of publication of this notice. Pursuant to section 17(8) of the Interstate Commerce Act, the filing of such a petition will postpone the effective date of the order in that proceeding pending its disposition. The matters relied upon by petitioners must be specified in their petitions with particularity.

No. MC-FC-67590. By order of February 26, 1965, the Transfer Board approved the transfer to W. L. Gehrs, Sr.,

Joplin, Mo., of the operating rights in Certificates Nos. MC-665, MC-665 (Sub-No. 11), MC-665 (Sub-No. 13), MC-665 (Sub-No. 18), MC-665 (Sub-No. 23), MC-665 (Sub-No. 24), MC-665 (Sub-No. 25), MC-665 (Sub-No. 26), MC-665 (Sub-No. 30), MC-665 (Sub-No. 31), MC-665 (Sub-No. 34), MC-665 (Sub-No. 35), MC-665 (Sub-No. 38), MC-665 (Sub-No. 41), MC-665 (Sub-No. 45), MC-665 (Sub-No. 47), MC-665 (Sub-No. 51), MC-665 (Sub-No. 55), MC-665 (Sub-No. 59), MC-665 (Sub-No. 62), and MC-665 (Sub-No. 63) issued March 4, 1949, March 7, 1950, July 7, 1958, August 20, 1952, July 8, 1952, August 27, 1952, November 5, 1952, February 21, 1955, December 15, 1953, November 16, 1954, June 29, 1954, October 8, 1954, October 8, 1954,

May 26, 1955, April 20, 1956, October 14, 1955, July 2, 1957, May 29, 1958, June 5, 1961, May 11, 1962, and September 25, 1961, respectively, in the name of Missouri-Arkansas Transportation Co., a corporation, Joplin, Mo., authorizing the transportation, over regular and irregular routes, of General commodities, with the usual exceptions, between points in Arkansas, Kansas, Oklahoma, and Missouri. J. F. Miller, 7501 Mission Road, Shawnee Mission, Kans., 66208, attorney for applicant.

[SEAL]

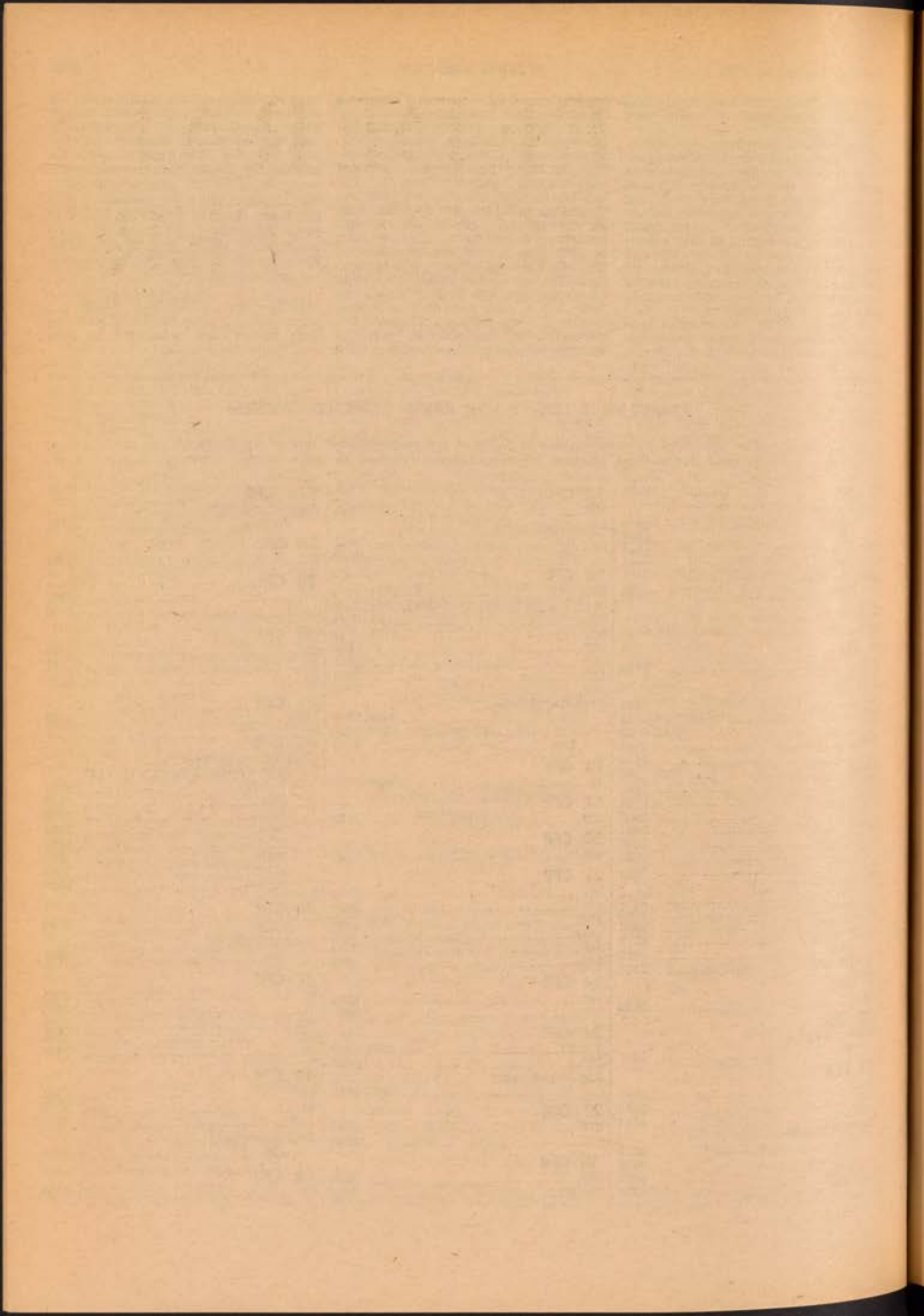
BERTHA F. ARMES,  
Acting Secretary.

[F.R. Doc. 65-2297: Filed, Mar. 4, 1965; 8:46 a.m.]

### CUMULATIVE LIST OF CFR PARTS AFFECTED—MARCH

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# FEDERAL REGISTER

VOLUME 30 • NUMBER 43

Friday, March 5, 1965 • Washington, D.C.

PART II

Small Business Administration

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## Proposed Revision of Account Classifications for Small Business Investment Companies



# SMALL BUSINESS ADMINISTRATION

[ 13 CFR Part 111 ]

## SYSTEM OF ACCOUNT CLASSIFICATIONS FOR SMALL BUSINESS INVESTMENT COMPANIES

### Notice of Proposed Revision

Notice is hereby given that pursuant to authority contained in section 308 of the Small Business Investment Act of 1958, Public Law 85-699, 72 Stat. 694, as amended, it is proposed to revise, as set forth below, Part 111 of Subchapter B, Chapter I of the Code of Federal Regulations, as set forth in 27 F.R. 8693-8713. Prior to the final adoption of such revision, consideration will be given to any comments or suggestions pertaining thereto which are submitted in writing, in triplicate, to the Investment Division, Small Business Administration, Washington, D.C., 20416, within a period of 10 days of the date of this notice in the FEDERAL REGISTER.

**Information.** The revision under consideration comprehends the following principal changes in the System of Account Classifications for Small Business Investment Companies:

1. A new account, No. 131, Insured Savings Accounts, together with subaccounts, is added to provide appropriate accounting for insured savings in institutions the accounts of which are insured by the Federal Savings and Loan Insurance Corporation, as permitted by amended section 308(b) of the Small Business Investment Act of 1958.

2. A note is added to account No. 160, Accrued Interest Receivable, and to related income, liability, and allowance for losses accounts requiring the discontinuance of the accrual of interest receivable from insolvent debtors, and either the provision of an adequate reserve against loss or the deferment of interest income when the debtor small business concern has not earned the amount of interest owed by it, or the fair value of the investment as determined in good faith by the board of directors is below cost.

3. A new account, No. 199, Warrants, Options, and Other Stock Rights Acquired from SBCs, is added to reflect the value at purchase price, or at cost as otherwise determined, of warrants, options, and other stock rights acquired from SBCs. Complementary changes are made in accounts Nos. 180, Debt Securities, Convertible, and with Stock Purchase Warrants or Options (Section 304); 190, Convertible Capital Stock of SBCs; and 194, Capital Stock of SBCs with Stock Purchase Warrants or Options, to make clear that the latter accounts now reflect, in addition to debt securities or stock, only nondetached stock rights which have no separate purchase cost, or cost as otherwise determined. Memorandum record NA-10, Stock Purchase Warrants or Options on Stock of SBCs, is amended to insure that it will be used only for stock rights having no cost value and which have been

retained after the financing instruments they accompanied at acquisition have been disposed of.

4. Note 4 to account No. 198, Capital Stock of SBCs—Other, is amended to provide, when applicable, for valuing stock received through conversion of debt securities or another class of capital stock at the market bid price, if any, of either the securities received or those surrendered.

5. Account No. 200, Assets Acquired in Liquidation of Loans and Debt Securities, has a new paragraph stating that an investment in real property acquired in liquidation of loans and debt securities should be recorded at gross value, with any existing mortgage on such property acquired being recorded in a new account, No. 319.2, Mortgages Payable on Assets Acquired in Liquidation of Loans and Debt Securities, which is a subaccount of account No. 319, Mortgages Payable.

6. Debit (a) of account No. 254, Uncollected Discount, Fees, and Other Charges on Debt Securities (Section 304), is amended to show that an amount equivalent to the determined cost of warrants, options, and other stock rights obtained with debt securities is to be established as uncollected discount on such debt securities. Credit (a) of account No. 384, Unearned Discount, Fees, and Other Charges on Debt Securities (Section 304), is similarly amended to provide for treatment of the same amount as unearned discount on such debt securities. Note 3 of account No. 199 is provided to explain in full the handling of discount equivalent to the purchase cost, or cost as otherwise determined, of stock rights obtained in connection with the acquisition of debt securities of small business concerns.

7. Subaccounts of account No. 257, Other Assets, are provided, respectively, for general items and for notes receivable maturing after one year.

8. Previous account No. 300, Notes Payable to SBA, is now represented by two accounts—No. 300, Notes Payable to SBA—Direct Loans, and No. 301, Notes Payable to SBA—Guaranteed Loans Purchased by SBA. Similarly, previous account No. 315, Notes Payable to Other than SBA, is now represented by accounts No. 315, Notes Payable to Other than SBA—Guaranteed by SBA, and 316, Notes Payable to Other than SBA—Not Guaranteed by SBA.

9. New account No. 333, Participations of Other Investors in Warrants, Options, and Other Stock Rights Acquired from SBCs, is added for the purpose of reflecting the outstanding balance of participations by other investors in stock rights acquired from small business concerns.

10. Account No. 386, Other Liabilities, is subdivided into three accounts, the first of which is for general liabilities. Subaccount No. 386.2, Other Liabilities—Unrealized Gain on Sale of Assets, is provided for deferment of gain resulting from sales of assets on an installment basis. Subaccount No. 386.3—Other Liabilities—Discount on Capital Stock of SBCs, is included in the revised system to represent the contingent liability in

connection with the acquisition of small business concerns' capital stock below par value.

11. Accounts Nos. 393, Allowance for Losses on Debt Securities (Section 304), and 394, Allowance for Losses on Capital Stock of SBCs, are rewritten to eliminate the previous requirement for reversal of total loss provisions against current expenses when debt securities or capital stock thus reserved for are disposed of. Instead, such a reversal is now required only for any portion of the loss allowance which is in excess of the actual loss realized on disposition of such assets. Distortion of income and expense for the current period which might occur under the previous procedure is thus avoided. Account No. 394 is now subdivided into subaccounts Nos. 394.1, Allowance for Losses on Capital Stock of SBCs, and 394.2, Allowance for Losses on Warrants, Options, and Other Stock Rights Acquired from SBCs. The latter subaccount also provides for the new procedure relative to loss provisions for equity investments, as does amended account No. 395, Allowance for Losses on Assets Acquired in Liquidation of Loans and Debt Securities.

12. New account No. 399, Accumulated Depreciation on Assets Acquired in Liquidation of Loans and Debt Securities, is added to represent the valuation reserve provided for depreciation of depreciable property acquired in liquidation of loans and debt securities.

13. Account No. 420, Paid-In Surplus, is amended to accomplish three purposes:

First, debit (a), regarding loss on treasury stock sold, is changed to conform to the principle followed in debit (c), regarding loss on capital stock retired; that is, such loss on treasury stock sold is now charged to this account only in an amount not to exceed the total of credits residing in this account relating to previous gains on treasury stock sold or retirement of capital stock at amounts less than the amounts previously paid in with respect thereto. Any excess loss is to be charged to accounts Nos. 425, Retained Earnings from Net Income, and 426, Retained Earnings from Net Realized Gain on Investments, as appropriate. The latter two accounts are modified to conform to this change.

Second, debit (d) is rewritten to provide for pricing stock dividends at a per share value not less than the average paid-in capital per share existing at the time the dividend is declared. This conforms with amended §107.1007(a) of the Regulations. Accounts Nos. 425 and 426 are similarly amended with respect to the pricing of stock dividends.

Third, credit (a) is amended to insure that the amount of any stock dividend which is in excess of the par value of the capital stock issued as such dividend will be included in this account.

14. Account No. 504, Interest on Time Deposits, is added to represent the amount of interest earned on time deposits, evidenced by time certificates of deposit, in banks which are members of the Federal Deposit Insurance Corporation.

15. Account No. 511, Income from Insured Savings Accounts, is added in order to account for income earned on funds in insured savings accounts in institutions the accounts of which are insured by the Federal Savings and Loan Insurance Corporation, as provided for in amended section 308(b) of the Small Business Investment Act of 1958.

16. Account No. 676, Estimated Losses on Warrants, Options, and Other Stock Rights Acquired from SBCs, is added to reflect the amount of estimated losses for the period on warrants, options, and other stock rights acquired from SBCs.

17. Account No. 679, Miscellaneous Operating Expenses, is added to represent the amount of operating expenses not specifically provided for in other accounts.

18. Accounts Nos. 702, Loss on Debt Securities (Section 304); 706, Loss on Capital Stock of SBCs; and 708, Loss on Assets Acquired in Liquidation of Loans and Debt Securities, are amended to provide that they will reflect only the loss on the applicable assets written down, sold, or disposed of otherwise, which is in excess of the loss provided for in the respective allowance for losses accounts. Account No. 707, Loss on Warrants, Options, and Other Stock Rights Acquired from SBCs, is added similarly to account for losses on stock rights in excess of those provided for in the pertinent allowance for losses account.

19. Account No. 710, Expense on Assets Acquired in Liquidation of Loans and Debt Securities, is expanded to include the amount of interest expense accrued on mortgages payable on assets acquired in liquidation of loans and debt securities.

20. Account No. 715, Other Expenses, is added to represent the amount of non-operating expenses not specifically provided for in other accounts.

It is proposed to adopt revised Part III as set forth below.

Dated: February 19, 1965.

By direction of Eugene P. Foley, Administrator, Small Business Administration.

ROSS D. DAVIS,  
Executive Administrator,  
Small Business Administration.

### PART III—SYSTEM OF ACCOUNT CLASSIFICATIONS FOR SMALL BUSINESS INVESTMENT COMPANIES

#### General Ledger

| Account Numbers |                                           |
|-----------------|-------------------------------------------|
| 100-299         | Asset accounts.                           |
| 300-399         | Liability and valuation reserve accounts. |
| 400-499         | Capital stock and surplus accounts.       |
| 500-599         | Income accounts.                          |
| 600-799         | Expense accounts.                         |

#### Memorandum Records

|             |                             |
|-------------|-----------------------------|
| CA-1-CA-4   | Contingent assets.          |
| CL-6-CL-9   | Contingent liabilities.     |
| NA-10-NA-14 | Nominal assets.             |
| NA-16-NL-19 | Nominal liabilities.        |
| OCS-1       | Options on company's stock. |

#### ASSET ACCOUNTS

|         |                           |
|---------|---------------------------|
| 10-12   | Cash on Hand and in Banks |
| 100-102 | Deposits in ----- bank.   |

|         |                                                                                                  |
|---------|--------------------------------------------------------------------------------------------------|
| Sec.    |                                                                                                  |
| 110-112 | Deposits in imprest account in ----- bank.                                                       |
| 115-117 | Time deposits in ----- bank.                                                                     |
| 118     | Cash items in process of collection.                                                             |
| 120     | Petty cash fund.                                                                                 |
| 13      | Investments in United States Government Securities and in Insured Savings Accounts               |
| 130     | United States Government obligations, direct and fully guaranteed.                               |
| 131     | Insured savings accounts.                                                                        |
| 14      | Notes Receivable                                                                                 |
| 140     | Notes receivable.                                                                                |
| 15      | Accounts Receivable                                                                              |
| 150     | Accounts receivable.                                                                             |
| 154     | Accounts receivable for compensation on participations sold.                                     |
| 155     | Accounts receivable for commitment fees on deferred participations and financing commitments.    |
| 16      | Accrued Interest Receivable                                                                      |
| 160     | Accrued interest receivable.                                                                     |
| 17      | Loans to Small Business Concerns                                                                 |
| 170     | Loans (Section 305).                                                                             |
| 179     | Funds in escrow pending closing of financing.                                                    |
| 18      | Debt Securities of Small Business Concerns                                                       |
| 180     | Debt securities, convertible, and with stock purchase warrants or options (Section 304).         |
| 184     | Debt securities divested of stock rights (Section 304).                                          |
| 19      | Capital Stock and Stock Rights of Small Business Concerns                                        |
| 190     | Convertible capital stock of SBCs.                                                               |
| 194     | Capital stock of SBCs with stock purchase warrants or options.                                   |
| 198     | Capital stock of SBCs—other.                                                                     |
| 199     | Warrants, options, and other stock rights acquired from SBCs.                                    |
| 20      | Assets Acquired in Liquidation of Loans and Debt Securities                                      |
| 200     | Assets acquired in liquidation of loans and debt securities.                                     |
| 21      | Amounts Due from Debtors on Sale of Assets Acquired in Liquidation of Loans and Debt Securities  |
| 210     | Amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities. |
| 22      | Prepaid Expenses                                                                                 |
| 220     | Prepaid expenses.                                                                                |
| 224     | Unamortized discount on debentures payable.                                                      |
| 23      | Furniture and Equipment                                                                          |
| 230     | Furniture and equipment.                                                                         |
| 24      | Corporate Premises Owned                                                                         |
| 240     | Corporate premises owned—land.                                                                   |
| 241     | Corporate premises owned—building.                                                               |
| 242     | Leasehold improvements.                                                                          |
| 25      | Other Assets                                                                                     |
| 250-252 | Capital stock subscriptions receivable— (Type and class)                                         |
| 253     | Uncollected discount, fees, and other charges on loans (Section 305).                            |
| 254     | Uncollected discount, fees, and other charges on debt securities (Section 304).                  |
| 255     | Amounts due from directors, officers, and employees.                                             |
| 256     | Organization costs.                                                                              |
| 257     | Other assets.                                                                                    |

#### LIABILITY AND VALUATION RESERVE ACCOUNTS

|         |                                                                                                                                   |
|---------|-----------------------------------------------------------------------------------------------------------------------------------|
| 30      | Notes and Other Obligations Payable to SBA for Funds Borrowed                                                                     |
| Sec.    |                                                                                                                                   |
| 300     | Notes payable to SBA—direct loans.                                                                                                |
| 301     | Notes payable to SBA—guaranteed loans purchased by SBA.                                                                           |
| 302     | Debentures payable, subordinated, issued to SBA.                                                                                  |
| 31      | Notes and Other Obligations Payable to Other than SBA for Funds Borrowed                                                          |
| 310     | Loans sold with recourse.                                                                                                         |
| 312     | Debt securities, convertible, and with stock purchase warrants or options sold with recourse.                                     |
| 314     | Debt securities divested of stock rights sold with recourse.                                                                      |
| 315     | Notes payable to other than SBA—guaranteed by SBA.                                                                                |
| 316     | Notes payable to other than SBA—not guaranteed by SBA.                                                                            |
| 317     | Debentures payable, unsubordinated.                                                                                               |
| 318     | Debentures payable, subordinated, issued to other than SBA.                                                                       |
| 319     | Mortgages payable.                                                                                                                |
| 32      | Notes Payable—Other                                                                                                               |
| 320     | Notes payable—other.                                                                                                              |
| 33      | Participations                                                                                                                    |
| 330     | Participations of other lenders in loans.                                                                                         |
| 331     | Participations of other investors in debt securities.                                                                             |
| 332     | Participations of other investors in capital stock of SBCs.                                                                       |
| 333     | Participations of other investors in warrants, options, and other stock rights acquired from SBCs.                                |
| 334     | Participations in assets acquired in liquidation of loans and debt securities.                                                    |
| 335     | Participations in amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities.                |
| 34      | Accounts Payable                                                                                                                  |
| 340     | Accounts payable for compensation on participations purchased.                                                                    |
| 342     | Accounts payable for commitment fees on deferred participations.                                                                  |
| 344     | Accounts payable—other.                                                                                                           |
| 35      | Accrued Expenses Payable                                                                                                          |
| 350     | Accrued interest payable.                                                                                                         |
| 352     | Accrued interest payable on participations of other lenders or investors in loans, debt securities, and amounts due from debtors. |
| 354     | Estimated Federal income taxes accrued.                                                                                           |
| 356     | Estimated State income taxes accrued.                                                                                             |
| 358     | Other accrued expenses.                                                                                                           |
| 36      | Dividends Payable                                                                                                                 |
| 360-362 | Dividends payable on ----- capital stock. (Type and class)                                                                        |
| 365-367 | Stock dividends payable on ----- capital stock. (Type and class)                                                                  |
| 37      | Deposit Liabilities                                                                                                               |
| 370     | Federal taxes withheld.                                                                                                           |
| 372     | State and city taxes withheld.                                                                                                    |
| 374     | Unapplied receipts.                                                                                                               |
| 376     | Advance interest payments.                                                                                                        |
| 378     | Miscellaneous trust receipts.                                                                                                     |
| 38      | Other Liabilities                                                                                                                 |
| 380     | Unamortized premium on debentures payable.                                                                                        |
| 382     | Unearned discount, fees, and other charges on loans (Section 305).                                                                |
| 384     | Unearned discount, fees, and other charges on debt securities (Section 304).                                                      |
| 386     | Other liabilities.                                                                                                                |

## 39—Valuation Reserves

- Sec.  
390 Allowance for uncollectible notes and accounts receivable.  
391 Allowance for uncollectible interest receivable.  
392 Allowance for uncollectible loans (Section 305).  
393 Allowance for losses on debt securities (Section 304).  
394 Allowance for losses on capital stock of SBCs and on stock rights acquired from SBCs.  
395 Allowance for losses on assets acquired in liquidation of loans and debt securities.  
396 Allowance for uncollectible amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities.  
397 Accumulated depreciation on furniture and equipment.  
398 Accumulated depreciation on corporate premises owned—building.  
399 Accumulated depreciation on assets acquired in liquidation of loans and debt securities.

## CAPITAL STOCK AND SURPLUS ACCOUNTS

## 40—41—Capital Stock

- 400—404 capital stock authorized.  
(Type and class)  
405—409 unissued capital stock.  
(Type and class)  
410—412 capital stock subscribed.  
(Type and class)  
415—419 Treasury stock—  
(Type and class)

## 42—Surplus

- 420 Paid-in surplus.  
425 Retained earnings from net income.  
426 Retained earnings from net realized gain on investments.  
427 Appropriated retained earnings.  
429 Profit and loss summary.  
430 Realized gain and loss summary.

## INCOME ACCOUNTS

## 50—Commitment Income

- 500 Commitment income.

## 51—52—Interest Income

- 504 Interest on time deposits.  
510 Interest on U.S. Government securities.  
511 Income from insured savings accounts.  
512 Interest on loans.  
514 Interest on funds in escrow pending closing of financing.  
516 Interest on debt securities.  
518 Interest on amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities.  
520 Interest income—other.

## 53—Compensation Income

- 530 Compensation income—participations sold.  
532 Advisory and consulting service fees.  
534 Appraisal and investigation fees.  
536 Miscellaneous fees.

## 54—Dividends and Other Earnings

- 540 Dividends on capital stock of SBCs.  
541 Shareings in income of SBCs.

## 55—Amortization of Premium on Debentures Payable

- 550 Amortization of premium on debentures payable.

## 56—Gain on Debentures Purchased and Retired

- 560 Gain on debentures purchased and retired.

## 57—Gain on Securities and Other Assets

- Sec.  
570 Gain on U.S. Government securities.  
572 Gain on debt securities (Section 304).  
574 Recoveries on asset losses charged to loss accounts.  
576 Gain on capital stock of SBCs.

## EXPENSE ACCOUNTS

## 60—Commitment Expense

- 600 Commitment expense.

## 61—62—Interest Expense

- 610 Interest on notes payable to SBA.  
614 Interest on debentures payable, issued to SBA.  
618 Interest on loans sold with recourse.  
620 Interest on debt securities sold with recourse.  
622 Interest on notes payable to other than SBA.  
624 Interest on debentures payable, issued to other than SBA.  
626 Interest on mortgages payable for funds borrowed.  
628 Interest expense—other.

## 63—Compensation Expense

- 630 Compensation expense—participations purchased.

## 64—Debenture, Fiscal Agent, and Stock Record Expense

- 640 Debenture and fiscal agent expense.  
642 Transfer agent and registrar expense.

## 65—67—Operating Expenses

- 650—679 Operating expenses.  
650 Advertising and promotional costs.  
651 Appraisal, consulting, and engineering costs.  
652 Auditing and examination costs.  
653 Communications.  
654 Cost of space occupied.  
655 Depreciation of corporate premises owned—building.  
656 Depreciation of furniture and equipment.  
657 Directors' and stockholders' meetings costs.  
658 Insurance.  
659 Investigation and financial service costs.  
660 Investment adviser and supervisory costs.  
661 Legal services.  
662 Miscellaneous services and supplies.  
663 Salaries.  
664 Taxes, excluding Federal and State income taxes.  
665 Travel.  
666 Uncollectible notes and accounts.  
667 Uncollectible interest receivable.  
668 Uncollectible loans (Section 305).  
669 Uncollectible amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities.  
670 Maintenance and repairs.  
671 Retirement benefits expense.  
672 Organization expense.  
673 Estimated losses on debt securities (Section 304).  
674 Estimated losses on capital stock of SBCs.  
675 Estimated losses on assets acquired in liquidation of loans and debt securities.  
676 Estimated losses on warrants, options, and other stock rights acquired from SBCs.  
679 Miscellaneous operating expenses.

## 68—Amortization of Discount on Debentures Payable

- 680 Amortization of discount on debentures payable.

## 69—Loss on Debentures Purchased and Retired

- Sec.  
690 Loss on debentures purchased and retired.

## 70—Loss on Securities and Other Assets

- 700 Loss on U.S. Government securities.  
702 Loss on debt securities (Section 304).  
706 Loss on capital stock of SBCs.  
707 Loss on warrants, options, and other stock rights acquired from SBCs.  
708 Loss on assets acquired in liquidation of loans and debt securities.  
709 Loss on other assets.

## 71—Miscellaneous Expenses

- 710 Expense on assets acquired in liquidation of loans and debt securities.  
715 Other expenses.

## 72—Federal and State Income Taxes

- 720 Federal income taxes—net income.  
723 Federal income taxes—net realized gain on investments.  
725 State income taxes—net income.  
727 State income taxes—net realized gain on investments.

## MEMORANDUM RECORDS

## Contingent Assets

- CA-1 Documentary items in process of collection.  
CA-2 Other contingent assets.

## Contingent Liabilities

- CL-6 Commitments outstanding.  
CL-7 Other contingent liabilities.

## Nominal Assets

- NA-10 Stock purchase warrants or options on stock of SBCs.

## Nominal Liabilities

- NL-16.

## Options on Company's Stock

- OCS-1 Options on company's stock.

## General Instructions

1. This system of account classifications for small business investment companies is adaptable to manual or machine accounting procedures employing the double-entry method, and is otherwise designed to meet the specific needs of companies licensed in accordance with the provisions of the Small Business Investment Act of 1958, as amended. Financial data accumulated in the manner required by this accounting system will facilitate the preparation of the annual, semiannual, and interim financial reports on SBA Form 468 to be furnished by licensed companies pursuant to the Act and Regulations.

2. Account classifications in use by companies licensed prior to issuance of this revised system shall be converted to the classifications set forth herein as soon as practicable but not later than 60 days after their adoption and publication in the FEDERAL REGISTER. A small business investment company which considers that it needs one or more additional accounts may submit a detailed description of the proposed account(s) to SBA for consideration, and, upon receipt of written approval thereof, may incorporate such additional accounts into its accounting system.

3. Subdivisions of any account in this system of account classifications may be kept in the general ledger without the

prior approval of SBA, provided that such subaccounts do not impair the integrity of the accounts set forth in the prescribed system. The titles of all such subaccounts shall refer by number and title to the accounts of which they are subdivisions, and a description of such subaccounts shall be furnished to SBA promptly upon their establishment. Use of a decimal system is required for extending the account numbers to identify such subaccounts.

4. This account classifications system provides for two-digit number designations for major categories under which accounts are listed, and three-digit number designations for individual general ledger accounts. The first two digits of an individual account number refer to the major category under which the account is classified and the third digit identifies the specific account. Digits from zero through nine are used to identify specific accounts. For example, the first deposit bank account established will be designated "100" and the second "101." It will be noted that some categories encompass individual accounts in sufficient number to require assignment of more than one two-digit number to identify the category. For example, "Cash on Hand and in Banks" has been assigned category numbers "10," "11," and "12."

5. Books of account shall be maintained on an accrual basis and, at the end of each month, all transactions and accruals applicable to the month, as nearly as may be ascertained, shall be entered in the books.

6. It is very important that complete and accurate records of all contingent and nominal assets and liabilities be maintained. This is especially true with respect to outstanding commitments to finance small business concerns through loans to them or the acquisition of their equity securities, and to make funds available to other lenders through deferred participations. A section providing for the maintenance of appropriate memorandum records is included herein, covering contingent assets, contingent liabilities, nominal assets, nominal liabilities, and options on the capital stock of the small business investment company.

7. Each small business investment company shall keep its books of account, and all other books, records, and memoranda which support in any way the entries in its books of account, in such manner as to be able readily to furnish full information on any item included in any account. The books and records referred to herein include not only accounting records in a limited technical sense, but all other records, such as minute books, capital stock records, reports, correspondence, and memoranda which may be useful in developing the history of, or facts regarding, any transaction.

8. Nothing contained in this system of account classifications can or is intended to authorize or approve any operation or action by a Licensee, or any other, not authorized or approved by the Small Business Investment Act of 1958, as amended.

## 100-102 Deposits in ----- bank. ASSET ACCOUNTS

These accounts will represent funds on demand deposit in banks which are members of the Federal Deposit Insurance Corporation.

Debit:

(a) With amount of funds deposited.

Credit:

(a) With amount of funds withdrawn, and charges made by bank for such items as dishonored checks, transfer of funds by wire, collection, exchange, etc.

## 110-112 Deposits in imprest account in ----- bank.

These accounts will represent funds on demand deposit in imprest bank accounts to be drawn upon for the payment of operating expenses and to be reimbursed periodically through deposit therein of a check requiring dual signatures and drawn on the company's general funds bank account.

Debit:

(a) With amount of funds deposited.

Credit:

(a) With amount of funds withdrawn.

## 115-117 Time deposits in ----- bank.

These accounts will represent funds on time deposit in banks which are members of the Federal Deposit Insurance Corporation.

Debit:

(a) With amount of funds deposited.

Credit:

(a) With amount of funds withdrawn.

## 118 Cash items in process of collection.

This account will represent the amount of cash items placed with banks for collection.

Debit:

(a) With amount of such items placed with banks for collection.

Credit:

(a) With amount of items collected.

(b) With amount of uncollected items returned or withdrawn.

## 120 Petty cash fund.

This account will represent the imprest petty cash fund maintained for the purpose of making small disbursements.

Debit:

(a) With amount placed in the fund when established.

(b) With amount of increase in the fund.

Credit:

(a) With amount of decrease in the fund.

NOTE: The petty cash fund may be reimbursed and expenditures recorded as often as circumstances require, but must be reimbursed at the close of the company's fiscal year. Checks to replenish the fund will be drawn on a general fund bank account and include "petty cash" as a payee. Debits totaling the amount of this replenishment should be made concurrently to the appropriate accounts.

## 130 United States Government obligations, direct and fully guaranteed.

This account will represent the cost of temporary investments made from general cash funds in direct obligations of the United States Government and

obligations guaranteed as to principal and interest by the United States Government. When United States Savings Bonds redeemable at par value on maturity are purchased at less than face value, the increase in redemption value may be periodically charged to this account with concurrent credit to account No. 510—Interest on U.S. Government securities.

Debit:

(a) With cost of such securities acquired.

(b) With increase in redemption value of United States Savings Bonds.

Credit:

(a) With redemption value of United States Savings Bonds redeemed.

(b) With cost of such securities sold or disposed of otherwise.

NOTE: Increase in value over cost of United States Treasury bills, which are issued at a discount and are noninterest bearing, will not be reflected in this account but will be debited at the end of each month to account No. 160—Accrued interest receivable, with concurrent credit to account No. 510—Interest on U.S. Government securities.

(See accounts Nos. 570 and 700)

## 131 Insured savings accounts.

This account will include the balances in subaccounts Nos. 131.1, 131.2, etc.

### 131.1 Insured savings in -----

This account will represent funds in an insured savings account in an institution the accounts of which are insured by the Federal Savings and Loan Insurance Corporation.

Debit:

(a) With amount of funds deposited.

(b) With amount of dividends received on such deposits.

Credit:

(a) With amount of funds withdrawn.

## 140 Notes receivable.

This account will represent the unpaid balance of miscellaneous notes receivable. Notes representing amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities will be reflected in account No. 210.

Debit:

(a) With amount of such miscellaneous notes received.

Credit:

(a) With amount collected on principal of such miscellaneous notes.

(b) With unpaid principal balance written off or disposed of otherwise.

(See account No. 390)

## 150 Accounts receivable.

This account will represent the amount due on open account for advisory, consulting, appraisal, financial, and miscellaneous services rendered, declared dividends receivable on capital stock of small business concerns, amounts receivable representing sharings in the income of small business concerns, and other current receivables for which no specific accounts have been provided.

Debit:

(a) With amount due the company.

Credit:

(a) With amount collected.

(b) With amount written off or disposed of otherwise.

(See account No. 390)

#### 154 Accounts receivable for compensation on participations sold.

This account, on the books of the "initiating" company, will represent the amount of accrued compensation receivable for services rendered to "participating" companies, such as banks, small business investment companies, and other lenders or investors, on their participations in loans (Section 305), debt securities (Section 304), assets acquired in liquidation of loans and debt securities, and amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities of the "initiating" company.

Debit:

(a) With amount of accrued compensation for such services rendered.

Credit:

(a) With amount of such accrued compensation collected.

(b) With amount of such accrued compensation written off or disposed of otherwise.

(See accounts Nos. 390 and 530)

#### 155 Accounts receivable for commitment fees on deferred participations and financing commitments.

This account, on the books of the "participating" company, will represent the amount of accrued commitment fees receivable for making funds available on a deferred basis to "initiating" companies, such as banks, small business investment companies, and other lenders, in connection with their financing of, or commitments to finance, small business concerns, or in connection with their acquisitions of loans or equity securities from other small business investment companies.

In addition, an "initiating" company will use this account to record the amount of accrued commitment fees receivable for making funds available on a deferred basis on commitments to finance small business concerns.

Debit:

(a) With amount of such accrued fees.

Credit:

(a) With amount of such accrued fees collected.

(b) With amount of such accrued fees written off or disposed of otherwise.

**NOTE:** A deferred participation is defined as a commitment under a participation agreement whereby the "participating" company will make funds available on a deferred basis to the "initiating" company in connection with the latter's financing of, or commitment to finance, a small business concern, or in connection with an "initiating" small business investment company's acquisition of loans or equity securities from other such companies.

(See accounts Nos. 390 and 500)

#### 160 Accrued interest receivable.

This account will represent the amount of interest accrued on loans to and debt securities of small business concerns, United States Government obligations, direct and fully guaranteed, notes receivable, sales contracts, and other in-

terest-bearing amounts due from debtors, including funds placed in escrow pending the closing of financing.

On the books of the "initiating" company, the full amount of interest accrued on loans (Section 305) and debt securities (Section 304) participated in by others will be reflected in this account pending collection from borrowers, or other disposition thereof (account No. 352 will be credited with amount due "participating" companies).

On the books of the "participating" company, interest accrued on the amount of the company's participation in loans and debt securities of others will be reflected in this account pending receipt of payment from the "initiating" company, or other disposition thereof.

Debit:

(a) With amount of accrued interest purchased, at date interest-bearing obligations are acquired.

(b) At the end of each month, with amount of interest accrued on all items covered by this account on that date.

(c) With amount of interest accrued during the month on such items disposed of during the month.

Credit:

(a) With amount of interest payments received.

(b) With amount of accrued interest transferred to assets acquired in liquidation of loans and debt securities.

(c) Upon disposition of interest-bearing obligations, with amount of accrued interest thereon included in this account.

(d) With amount of accrued interest written off or disposed of otherwise.

**NOTE 1:** At the option of the company, interest payments received in cash from debtors prior to the interest maturity date may be credited to account No. 376—Advance interest payments, until the maturity date.

**NOTE 2:** Accrual of interest receivable should be discontinued with respect to any loan or debt security financing a small business concern which is in bankruptcy, or on the verge thereof, or otherwise considered to be insolvent. Any interest payments received from such a debtor should not be treated as interest income, but should be either credited as payments on principal of the debt or credited as deferred income in account No. 386.1—Other liabilities—general, pending determination of the appropriate accounting. In less serious situations, when interest receivable is accrued under circumstances in which the financed small business concern has not earned the amount thereof, or the fair value of the loan or debt security as determined in good faith by the board of directors is less than cost, or recovery thereon is doubtful, an addition to the allowance for uncollectible interest receivable should be made in an amount equivalent to the accrual of interest receivable, or, as an alternative, the interest income should be deferred in account No. 386.1 as above indicated.

#### 170 Loans (Section 305).

This account will represent the unpaid balance of net funds advanced on loans made to small business concerns pursuant to Section 305 of the Small Business Investment Act of 1958, as amended.

Debit:

(a) With face amount of direct loans.

(b) On the books of the "initiating" company, with total face amount of the

loan made to borrower by both the "initiating" company and the "participating" company (account No. 330 will be credited with the portion purchased by the "participating" company).

(c) On the books of the "participating" company, with amount of participations in loans of others.

(d) With that portion of amount collected allocable to discount, fees, and other charges included in the face amount of direct loans but withheld from disbursements to debtor small business concerns (contra credit will be made to account No. 253).

(e) On the books of the "initiating" company, with total amount collected allocable to such discount, fees, and other charges included in the face amount of loans, but withheld from disbursements to debtor small business concerns, in connection with loans participated in by other lenders (contra credit will be made to account No. 253 for the "initiating" company's portion and to account No. 330 for the "participating" company's portion).

(f) On the books of the "participating" company, with amount collected allocable to that portion of such discount, fees, and other charges included in the face amount of loans, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participations in loans of other lenders (contra credit will be made to account No. 253).

(g) With unpaid principal of loans represented by renewal notes accepted or notes taken in substitution for those held (appropriate adjustment will be made to account No. 253).

(h) With reversal of prior credits when checks received representing repayments are dishonored, etc.

Credit:

(a) With amount of uncollected discount, fees, and other charges included in the face amount of direct loans but withheld from disbursements to debtor small business concerns (contra debit will be made to account No. 253).

(b) On the books of the "initiating" company, with total amount of uncollected discount, fees, and other charges included in the face amount of loans, but withheld from disbursements to debtor small business concerns, in connection with loans participated in by other lenders (contra debit will be made to account No. 253).

(c) On the books of the "participating" company, with that portion of uncollected discount, fees, and other charges included in the face amount of loans, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participations in loans of other lenders (contra debit will be made to account No. 253).

(d) With amount collected on face amount of direct loans.

(e) On the books of the "initiating" company, with full amount collected on unpaid principal of loans participated in by others.

(f) On the books of the "participating" company, with full amount by which

participations in loans of others are reduced by repayments transmitted by the "initiating" company.

(g) With unpaid principal of loans represented by notes renewed or for which other notes have been substituted (appropriate adjustment will be made to account No. 253).

(h) With amount transferred to assets acquired in liquidation of loans and debt securities (appropriate adjustment will be made to account No. 253).

(i) With unpaid principal of loans written off or disposed of otherwise (appropriate adjustment will be made to account No. 253).

NOTE 1: It is assumed that in all loan participation arrangements the "initiating" company will service the loans.

NOTE 2: It is recommended that individual loan ledger cards or sheets be maintained for all loans. Such ledger cards or sheets should contain the detailed information needed for account No. 253—Uncollected discount, fees, and other charges on loans (Section 305), account No. 330—Participations of other lenders in loans, and account No. 382—Unearned discount, fees, and other charges on loans (Section 305).

(See accounts Nos. 310 and 392)

#### 179 Funds in escrow pending closing of financing.

This account will represent the amount of funds placed in escrow pending the closing of financing for small business concerns.

Debit:

(a) With amount of funds placed in escrow.

Credit:

(a) With amount of funds withdrawn from escrow.

#### 180 Debt securities, convertible, and with stock purchase warrants or options (Section 304).

This account will represent the unpaid balance of net funds advanced on small business concerns' debt securities, convertible, and with attached stock purchase warrants or options acquired by the company pursuant to Section 304 of the Small Business Investment Act of 1958, as amended. If the stock purchase warrants, options, or other stock rights have a separate purchase cost, or if a separate cost has otherwise been determined for them, the warrants, options, or other stock rights will be reflected at such cost in account No. 199.

Debit:

(a) With face amount of debt securities, convertible, and with stock purchase warrants or options acquired.

(b) On the books of the "initiating" company, with total face amount of the debt securities, convertible, and with stock purchase warrants or options purchased by both the "initiating" company and the "participating" company (account No. 331 will be credited with the portion purchased by the "participating" company).

(c) On the books of the "participating" company, with amount of participations in purchases by others of debt securities, convertible, and with stock purchase warrants or options.

(d) With that portion of amount collected allocable to discount, fees, and

other charges included in the face amount of such debt securities, but withheld from disbursements to debtor small business concerns (contra credit will be made to account No. 254).

(e) On the books of the "initiating" company, with total amount collected allocable to such discount, fees, and other charges included in the face amount of such debt securities, but withheld from disbursements to debtor small business concerns, in connection with purchases of debt securities participated in by other investors (contra credit will be made to account No. 254 for the "initiating" company's portion and to account No. 331 for the "participating" company's portion).

(f) On the books of the "participating" company, with amount collected allocable to that portion of such discount, fees, and other charges included in the face amount of such debt securities, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participations in purchases by other investors of debt securities (contra credit will be made to account No. 254).

(g) With reversal of prior credits when checks received representing repayments are dishonored, etc.

Credit:

(a) With amount of uncollected discount (including that equivalent to the determined cost of warrants, options, and other stock rights, as explained in Note 3 of account No. 199), fees, and other charges included in the face amount of debt securities, convertible, and with stock purchase warrants or options, but withheld from disbursements to debtor small business concerns (contra debit will be made to account No. 254).

(b) On the books of the "initiating" company, with total amount of uncollected discount, fees, and other charges included in the face amount of debt securities, convertible, and with stock purchase warrants or options, but withheld from disbursements to debtor small business concerns, in connection with purchases of debt securities participated in by other investors (contra debit will be made to account No. 254).

(c) On the books of the "participating" company, with that portion of uncollected discount, fees, and other charges included in the face amount of debt securities, convertible, and with stock purchase warrants or options, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participations in purchases by other investors of debt securities (contra debit will be made to account No. 254).

(d) With amount collected on face amount of debt securities, convertible, and with stock purchase warrants or options.

(e) On the books of the "initiating" company, with full amount collected on unpaid principal of debt securities, convertible, and with stock purchase warrants or options, through payments amortizing such securities and on partial calls of such securities.

(f) On the books of the "participating" company, with full amount by which participations in purchases by others of debt securities convertible, and with stock purchase warrants or options, are reduced by repayments transmitted by the "initiating" company.

(g) With unpaid principal of debt securities, convertible, and with stock purchase warrants or options, or portions thereof, converted into capital stock (appropriate adjustment will be made to account No. 254).

(h) With unpaid principal of debt securities, convertible, and with stock purchase warrants or options which have been divested of stock rights through (1) the expiration of the conversion privilege, (2) the exercise or the expiration of rights conveyed by nondetachable or detachable stock purchase warrants or options, or (3) the detachment of detachable stock purchase warrants or options.

(i) With unpaid principal of debt securities, convertible, and with stock purchase warrants or options, transferred to assets acquired in liquidation of loans and debt securities (appropriate adjustment will be made to account No. 254).

(j) With unpaid principal of debt securities, convertible, and with stock purchase warrants or options, written off or disposed of otherwise (appropriate adjustment will be made to account No. 254).

NOTE 1: It is assumed that in all arrangements for participation in the purchase of debt securities, convertible, and with stock purchase warrants or options the "initiating" company will service the financing.

NOTE 2: It is recommended that individual ledger cards or sheets be maintained for all debt securities, convertible, and with stock purchase warrants or options. Such ledger cards or sheets should contain the detailed information needed for account No. 254—Uncollected discount, fees, and other charges on debt securities (Section 304), account No. 331—Participations of other investors in debt securities, and account No. 384—Unearned discount, fees, and other charges on debt securities (Section 304).

(See accounts Nos. 184, 312, and 393, and memorandum record No. NA-10)

#### 184 Debt securities divested of stock rights (Section 304).

This account will represent the unpaid balance of net funds advanced on small business concerns' debt securities which have been divested of stock rights through (1) the expiration of the conversion privilege of convertible debt securities, (2) the exercise or the expiration of rights conveyed by nondetachable or detachable stock purchase warrants or options of debt securities, or (3) the detachment of detachable stock purchase warrants or options, obtained in connection with the acquisition of debt securities pursuant to Section 304 of the Small Business Investment Act of 1958, as amended.

Debit:

(a) With unpaid principal of debt securities divested of stock rights through (1) the expiration of the conversion privilege, (2) the exercise or the expiration of rights conveyed by nondetachable or detachable stock purchase warrants or options, or (3) the detachment of de-

tachable stock purchase warrants or options.

(b) On the books of the "initiating" company, with total unpaid principal of the debt securities divested of stock rights (account No. 331 will be credited with the portion purchased by the "participating" company).

(c) On the books of the "participating" company, with amount of participations in purchases by others of debt securities which have been subsequently divested of stock rights.

(d) With that portion of amount collected allocable to discount, fees, and other charges included in the face amount of such debt securities, but withheld from disbursements to debtor small business concerns (contra credit will be made to account No. 254).

(e) On the books of the "initiating" company, with total amount collected allocable to such discount, fees, and other charges included in the face amount of such debt securities, but withheld from disbursements to debtor small business concerns, in connection with purchases of debt securities participated in by other investors (contra credit will be made to account No. 254 for the "initiating" company's portion and to account No. 331 for the "participating" company's portion).

(f) On the books of the "participating" company, with amount collected allocable to that portion of such discount, fees, and other charges included in the face amount of such debt securities, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participations in purchases by other investors of debt securities (contra credit will be made to account No. 254).

(g) With reversal of prior credits when checks received representing repayments are dishonored, etc.

#### Credit:

(a) With amount of uncollected discount, fees, and other charges included in the face amount of debt securities divested of stock rights but withheld from disbursements to debtor small business concerns (contra debit will be made to account No. 254).

(b) On the books of the "initiating" company, with total amount of uncollected discount, fees, and other charges included in the face amount of debt securities divested of stock rights, but withheld from disbursements to debtor small business concerns, in connection with purchases of debt securities participated in by other investors (contra debit will be made to account No. 254).

(c) On the books of the "participating" company, with that portion of uncollected discount, fees, and other charges included in the face amount of debt securities divested of stock rights, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participations in purchases by other investors of debt securities (contra debit will be made to account No. 254).

(d) With amount collected on face

amount of debt securities divested of stock rights.

(e) On the books of the "initiating" company, with full amount collected on unpaid principal of debt securities divested of stock rights through payments amortizing such securities and on partial calls of such securities.

(f) On the books of the "participating" company, with full amount by which participations in purchases by others of debt securities which have been subsequently divested of stock rights are reduced by repayments transmitted by the "initiating" company.

(g) With unpaid principal of debt securities divested of stock rights transferred to assets acquired in liquidation of loans and debt securities (appropriate adjustment will be made to account No. 254).

(h) With unpaid principal of debt securities divested of stock rights written off or disposed of otherwise (appropriate adjustment will be made to account No. 254).

NOTE: It is assumed that in all arrangements for participation in the purchase of debt securities the "initiating" company will service the financing.

NOTE 2: It is recommended that individual ledger cards or sheets be maintained for all debt securities which have been divested of stock rights. Such ledger cards or sheets should contain the detailed information needed for account No. 254—Uncollected discount, fees, and other charges on debt securities (Section 304), account No. 331—Participations of other investors in debt securities, and account No. 384—Unearned discount, fees, and other charges on debt securities (Section 304).

(See accounts Nos. 180, 314, and 393)

#### 190 Convertible capital stock of SBCs.

This account will represent the value at cost of small business concerns' convertible capital stock acquired by the company pursuant to Section 304 of the Small Business Investment Act of 1958, as amended. Conversion rights for which a separate cost has been determined will be reflected in account No. 199.

#### Debit:

(a) With cost of such convertible capital stock acquired.

(b) On the books of the "initiating" company, with total cost of the convertible capital stock of SBCs purchased by both the "initiating" company and the "participating" company (account No. 332 will be credited with the portion representing the investment of the "participating" company).

(c) On the books of the "participating" company, with amount of participations in acquisitions by others of convertible capital stock of SBCs.

#### Credit:

(a) With cost of such convertible capital stock converted to another class of capital stock.

(b) With cost of such convertible capital stock in connection with which the conversion privilege has expired.

(c) With cost of such convertible capital stock written off or disposed of otherwise.

NOTE 1: It is assumed that in all arrangements for participation in the acquisition

of capital stock of SBCs the "initiating" company will service the financing.

NOTE 2: It is recommended that individual ledger cards or sheets be maintained for all convertible capital stock of SBCs. Such ledger cards or sheets should contain the detailed information needed for account No. 332—Participations of other investors in capital stock of SBCs.

(See accounts Nos. 198 and 394)

#### 194 Capital stock of SBCs with stock purchase warrants or options.

This account will represent the value at cost of small business concerns' capital stock with attached stock purchase warrants or options acquired by the company pursuant to Section 304 of the Small Business Investment Act of 1958, as amended. If the stock purchase warrants or options have a separate purchase cost, or if a separate cost has otherwise been determined for them, the warrants or options will be reflected at such cost in account No. 199.

#### Debit:

(a) With cost of such capital stock of SBCs with stock purchase warrants or options acquired.

(b) On the books of the "initiating" company, with total cost of the capital stock of SBCs with stock purchase warrants or options purchased by both the "initiating" company and the "participating" company (account No. 332 will be credited with the portion representing the investment of the "participating" company).

(c) On the books of the "participating" company, with amount of participations in acquisitions by others of capital stock of SBCs with stock purchase warrants or options.

#### Credit:

(a) With cost of such capital stock of SBCs with stock purchase warrants or options which has been divested of stock purchase rights through either (1) the exercise or the expiration of rights conveyed by nondetachable or detachable stock purchase warrants or options, or (2) the detachment of detachable stock purchase warrants or options.

(b) With cost of such capital stock of SBCs with stock purchase warrants or options written off or disposed of otherwise.

NOTE 1: It is assumed that in all arrangements for participation in the acquisition of capital stock of SBCs with stock purchase warrants or options the "initiating" company will service the financing.

NOTE 2: It is recommended that individual ledger cards or sheets be maintained for all capital stock of SBCs with stock purchase warrants or options. Such ledger cards or sheets should contain the detailed information needed for account No. 332—Participations of other investors in capital stock of SBCs.

(See accounts Nos. 198 and 394, and memorandum record No. NA-10)

#### 198 Capital stock of SBCs—other.

This account will represent the value at cost of small business concerns' capital stock acquired by the company without conversion privileges or stock purchase warrants or options, or existing on the books as the result of (1) the expiration of the conversion privilege of convertible capital stock of SBCs, (2)

the exercise or the expiration of rights conveyed by nondetachable or detachable stock purchase warrants or options, or (3) the detachment of detachable stock purchase warrants or options, obtained in connection with the acquisition of capital stock of small business concerns pursuant to Section 304 of the Small Business Investment Act of 1958, as amended.

**Debit:**

(a) With cost of such capital stock of SBCs—other acquired through (1) purchase, (2) conversion of convertible debt securities or convertible capital stock of SBCs, or (3) exercise of rights conveyed by stock purchase warrants or options issued by small business concerns in connection with their debt securities or capital stock acquired by the company.

(b) With cost of such capital stock of SBCs—other resulting from (1) the expiration of the conversion privilege of convertible capital stock of SBCs, (2) the expiration of rights conveyed by nondetachable or detachable stock purchase warrants or options, or (3) the detachment of detachable stock purchase warrants or options, obtained in connection with the acquisition of capital stock of small business concerns.

(c) On the books of the "initiating" company, with total cost of the capital stock of SBCs—other acquired or subsequently existing on the books without conversion privileges or stock purchase warrants or options (account No. 332 will be credited with the portion representing the investment of the "participating" company).

(d) On the books of the "participating" company, with amount of participations in capital stock of SBCs—other acquired by or subsequently existing on the books of others without conversion privileges or stock purchase warrants or options.

**Credit:**

(a) With cost of such capital stock of SBCs—other written off or disposed of otherwise.

**NOTE 1:** It is assumed that in all arrangements for participation in capital stock of SBCs—other the "initiating" company will service the financing.

**NOTE 2:** It is recommended that individual ledger cards or sheets be maintained for all capital stock of SBCs—other acquired or subsequently existing without conversion privileges or stock purchase warrants or options. Such ledger cards or sheets should contain the detailed information needed for account No. 332—Participations of other investors in capital stock of SBCs.

**NOTE 3:** In acquisitions of capital stock through exercise of rights conveyed by stock purchase warrants or options issued by small business concerns in connection with their debt securities or capital stock previously acquired by the company, the amount of the expenditure made by the company in the current acquisition of the capital stock will be considered the cost of the stock in those instances when the stock purchase rights surrendered have only a nominal value; otherwise, the cost of the stock will comprise the current expenditure plus the cost of the warrants or options surrendered.

**NOTE 4:** In conversions of convertible debt securities of small business concerns into capital stock, or in conversions of convertible capital stock of SBCs into another class of capital stock, the value at cost of the

particular convertible security should be considered the cost of the capital stock received in the conversion, unless there is an ascertainable market value for one or the other class of securities involved in the transaction. In the latter case, the market bid price should govern the entries to be made and the amount of gain or loss to be recorded, provided that the securities for which there is a market are registered or readily registrable and salable, and further provided that, in the opinion of the Board of Directors, the bid price could be realized upon immediate liquidation of the investment.

(See accounts Nos. 190, 194, 199, 254, and 394)

**199 Warrants, options, and other stock rights acquired from SBCs.**

This account will represent the value at purchase price or at cost as otherwise determined of warrants, options, and other stock rights acquired by the company from small business concerns pursuant to Section 304 of the Small Business Investment Act of 1958, as amended. The account will include conversion rights for which a separate cost has been determined.

Detachable stock purchase warrants or options on stock of SBCs for which no consideration is given distinct from that surrendered for the debt securities or capital stock which they accompany, or for which no separate cost has been determined, will be reflected in memorandum record No. NA-10, if retained after the financing instruments which they accompanied have been disposed of. (Reference should be made to Treasury regulations concerning the treatment of options acquired by lenders or investors in connection with investments.)

**Debit:**

(a) With cost of such warrants, options, or other stock rights acquired.

(b) On the books of the "initiating" company, with total cost of the warrants, options, or other stock rights purchased by both the "initiating" company and the "participating" company (account No. 333 will be credited with the portion representing the investment of the "participating" company).

(c) On the books of the "participating" company, with amount of participations in acquisitions by others of warrants, options, or other stock rights.

**Credit:**

(a) With cost of such warrants, options, or other stock rights surrendered in exercising the stock rights.

(b) With cost of such warrants, options, or other stock rights sold or disposed of otherwise.

(c) With cost of such warrants, options, or other stock rights for which the exercise period has expired.

**NOTE 1:** It is assumed that in all arrangements for participation in the acquisition of warrants, options, or other stock rights acquired from SBCs the "initiating" company will service the financing.

**NOTE 2:** It is recommended that individual ledger cards or sheets be maintained for all warrants, options, or other stock rights acquired from SBCs. Such ledger cards or sheets should contain the detailed information needed for account No. 333—Participations of other investors in warrants, options, and other stock rights acquired from SBCs.

**NOTE 3:** The cost of warrants, options, and other stock rights acquired from SBCs for a separate consideration will be charged to this account, with a credit to cash. If warrants, options, or other stock rights are acquired from SBCs without a separate consideration and a cost thereof is otherwise determined, such cost will be established in this account. In such event, the payment for the debt security or capital stock certificate which accompanied the stock rights will be allocated between the obligation or stock and the stock rights. Cash will be credited for the determined cost of the stock rights. Cash also will be credited for the amount of the debt security or stock received less the amount withheld from disbursement in relation to the debt security or stock received, which is equivalent to the determined cost of the stock rights plus (in the case of a debt security) any other withholding from net funds advanced. In the purchase of a debt security the deduction equal to the determined cost of the stock rights, plus any other withholding from net funds advanced, will be treated as unearned discount on the debt security and credited to account No. 384—Unearned discount, fees, and other charges on debt securities (Section 304). A simultaneous entry will be made for the same amount crediting the appropriate debt security asset account, No. 180—Debt securities, convertible, and with stock purchase warrants or options (Section 304), and debiting account No. 254—Uncollected discount, fees, and other charges on debt securities (Section 304). In the case of a purchase of capital stock, the deduction equal to the determined cost of the stock rights will serve to reduce the cost of the stock to be recorded, as appropriate, in account No. 190—Convertible capital stock of SBCs, or account No. 194—Capital stock of SBCs with stock purchase warrants or options.

(See accounts Nos. 198, 577, and 707)

**200 Assets acquired in liquidation of loans and debt securities.**

This account will represent the company's investment in assets acquired by foreclosure, or otherwise, in liquidation of loans (Section 305) and debt securities (Section 304). Judgments, sheriffs' certificates (including property acquired subject to redemption), etc., will be reflected in this account.

The investment in property at the date of acquisition by the company should be determined by the Board of Directors on the most suitable of the following bases, but not to exceed the total amount of the related loan or debt security involved: (1) Bid-in price of the property; (2) agreed consideration for the property; (3) fair appraised value of the property. Any remaining indebtedness will be written off unless the company expects further liquidation of the debt from other sources. Insofar as practicable, investment values will be determined for each individual asset, or unit, at the time such assets are recorded in this account, and when an asset is sold only an amount equal to the investment in such asset will be credited to this account.

The company's investment in real property acquired in liquidation of loans and debt securities should be recorded at gross value as determined by the Board of Directors. The amount of any existing mortgage on such property acquired by the company will be reflected in account No. 319.2.

The balance of the latter account will not be treated as a liability on the balance sheet but will be deducted from the asset account.

The company's investment in judgments should be recorded at the face amount of the judgment. When the company acquires the underlying security to the related loan or debt security outright or subject to redemption, the investment in the property should be determined in accordance with the bases set forth in the second paragraph.

**Debit:**

(a) With amount of the company's investment in the property at the time of acquisition.

(b) With amount of the company's investment in the property at the date of judgment, sheriff's certificate, etc.

(c) On the books of the "participating" company, with amount of participation in assets acquired in liquidation of loans and debt securities of others.

**Credit:**

(a) With proceeds of partial sale of property.

(b) With amount of the company's investment at date of sale, or other disposition of property.

(c) With amount written off.

**NOTE 1:** Collateral notes receivable acquired in the liquidation of loans and debt securities will be reflected in this account; but notes receivable that are subsequently accepted in connection with the disposition of assets acquired in the liquidation of loans and debt securities will be included in account No. 210—Amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities.

**NOTE 2:** The full amount of assets acquired in liquidation of loans and debt securities participated in by other lenders or investors will be included in this account on the books of the "initiating" company.

**NOTE 3:** It is recommended that subsidiary records be maintained in sufficient detail to disclose for report and tax purposes all transactions affecting assets acquired in liquidation of loans and debt securities.

(See accounts Nos. 170, 180, 184, 334, and 395.)

**210 Amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities.**

This account will represent the unpaid balance of accounts receivable, notes receivable, sales contracts, purchase money mortgages, and similar evidences of indebtedness to the company arising from the sale of assets acquired in liquidation of loans (Section 305) and debt securities (Section 304).

**Debit:**

(a) With amount of such receivables.

(b) On the books of the "participating" company, with amount of participation in amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities of other lenders or investors.

**Credit:**

(a) With amount collected on principal of such receivables.

(b) With amount transferred to assets acquired in liquidation of loans and debt securities.

(c) With unpaid principal balance written off or disposed of otherwise.

**NOTE 1:** The full amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities participated in by other lenders or investors will be included in this account on the books of the "initiating" company.

**NOTE 2:** It is recommended that subsidiary records be maintained in sufficient detail to disclose for report and tax purposes all transactions affecting amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities.

(See accounts Nos. 335 and 396)

**220 Prepaid expenses.**

This account will represent the unexpired or unconsumed portion of expenses expressly applicable to future periods for which no specific accounts have been provided. Such expenses should be amortized over the appropriate period.

**Debit:**

(a) With amount of prepaid or deferred expenses.

**Credit:**

(a) At the end of each month, with the proportional amount of such expenses applicable to the current month.

**NOTE:** Subsidiary records should be maintained to identify the items reflected in this account and to facilitate their monthly amortization.

**224 Unamortized discount on debentures payable.**

This account will represent the amount of the unamortized balance of discount on unmatured outstanding debentures payable sold by the company for a sum less than par.

**Debit:**

(a) With amount of discount on such debentures at the time of sale.

**Credit:**

(a) At the end of each month, with the monthly amount necessary to amortize the discount over the life of such debentures.

(b) With the unamortized portion of discount applicable to such debentures purchased and retired prior to maturity.

(c) When such debentures mature during the month, with amount of discount applicable to the portion of the month the debentures were outstanding.

(See accounts Nos. 560, 680, and 690)

**230 Furniture and equipment.**

This account will represent the cost of furniture, fixtures and equipment, including automobiles, owned by the company. The cost of freight, drayage, cartage, express, etc., in connection with the purchase of such items of furniture and equipment, will be included in this account.

**Debit:**

(a) With cost of such assets purchased.

**Credit:**

(a) With cost of such assets at the time of sale or other disposition.

**NOTE:** An inventory record should be maintained for all such assets and each item should be tagged or numbered to facilitate ready identification.

(See account No. 397)

**240 Corporate premises owned—land.**

This account will represent the actual cost of acquisition of the land used as the site of the company's office quarters. The account also will include the actual cost of any improvements, such as street, sidewalk and other benefits, applicable to the land.

**Debit:**

(a) With actual cost of acquisition of the land.

(b) With actual cost of any improvement to the land.

**Credit:**

(a) With the acquisition cost of the land, plus the cost of improvements made thereto, when the land is sold or disposed of otherwise.

**241 Corporate premises owned—building.**

This account will represent the actual cost of acquisition of the building used as the company's office quarters. The account also will include the actual cost of any improvements applicable to the building.

**Debit:**

(a) With actual cost of acquisition of the building.

(b) With actual cost of any improvement to the building.

**Credit:**

(a) With the acquisition cost of the building, plus the cost of improvements made thereto, when the building is sold or disposed of otherwise.

(See account No. 398)

**242 Leasehold improvements.**

This account will represent the actual cost of improvements to leased property used as the company's office quarters. The amount of this account will be amortized over the life of the lease or the life of the improvements, whichever is the shorter.

**Debit:**

(a) With actual cost of improvements to leasehold.

**Credit:**

(a) At the end of each month, with the monthly amount necessary to amortize the cost of leasehold improvements.

**250-252 Capital stock subscriptions receivable—(type and class)**

These accounts will represent the total unpaid balances of capital stock subscriptions receivable from subscribers of the company's authorized capital stock. A separate subscriptions receivable account should be provided for each type and class of capital stock.

**Debit:**

(a) With amount of such capital stock subscriptions received.

**Credit:**

(a) With amount collected on such capital stock subscriptions.

(b) With amount of such capital stock subscriptions cancelled or disposed of otherwise.

(See accounts Nos. 410-412)

### 253 Uncollected discount, fees, and other charges on loans (Section 305).

This account will represent the amount of uncollected discount, fees, and other charges on loans (Section 305) included in the face amount of loans charged to account No. 170—Loans (Section 305).

#### Debit:

(a) With amount of uncollected discount, fees, and other charges included in the face amount of direct loans but withheld from disbursements to debtor small business concerns (contra credit will be made to account No. 170).

(b) On the books of the "initiating" company, with total amount of uncollected discount, fees, and other charges included in the face amount of loans, but withheld from disbursements to debtor small business concerns, in connection with loans participated in by other lenders (contra credit will be made to account No. 170).

(c) On the books of the "participating" company, with that portion of uncollected discount, fees, and other charges included in the face amount of loans, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participations in loans of other lenders (contra credit will be made to account No. 170).

(d) With amount of any adjustments required because of adjustment of account No. 170.

#### Credit:

(a) On the books of the "initiating" company, with that portion of uncollected discount, fees, and other charges included in the face amount of loans, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participation in the loans (contra debit will be made to account No. 330).

(b) With that portion of amount collected allocable to discount, fees, and other charges included in the face amount of direct loans but withheld from disbursements to debtor small business concerns (contra debit will be made to account No. 170).

(c) On the books of the "initiating" company, with the "initiating" company's portion of amount collected allocable to such discount, fees, and other charges included in the face amount of loans, but withheld from disbursements to debtor small business concerns, in connection with loans participated in by other lenders (contra debit will be made to account No. 170).

(d) On the books of the "participating" company, with amount collected allocable to that portion of such discount, fees, and other charges included in the face amount of loans, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participations in loans of other lenders (contra debit will be made to account No. 170).

(e) With amount of any adjustment required because of adjustment of account No. 170.

**NOTE:** Appropriate subsidiary records should be maintained for all uncollected amounts included in this account to permit identification of such amounts with the particular loans to which they relate.

(See account No. 382)

### 254 Uncollected discount, fees, and other charges on debt securities (Section 304).

This account will represent the amount for uncollected discount, fees, and other charges on debt securities (Section 304) included in the face amount of debt securities charged to account No. 180—Debt securities, convertible, and with stock purchase warrants or options (Section 304), or account No. 184—Debt securities divested of stock rights (Section 304).

#### Debit:

(a) With amount of uncollected discount (including that equivalent to the determined cost of warrants, options, and other stock rights, as explained in Note 3 of account No. 199), fees, and other charges included in the face amount of such debt securities but withheld from disbursements to debtor small business concerns (contra credit will be made to account No. 180 or account No. 184, as appropriate).

(b) On the books of the "initiating" company, with total amount of uncollected discount, fees, and other charges included in the face amount of such debt securities, but withheld from disbursements to debtor small business concerns, in connection with purchases of debt securities participated in by other investors (contra credit will be made to account No. 180 or account No. 184, as appropriate).

(c) On the books of the "participating" company, with that portion of uncollected discount, fees, and other charges included in the face amount of such debt securities, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participations in purchases by other investors of debt securities (contra credit will be made to account No. 180 or account No. 184, as appropriate).

(d) With amount of any adjustment required because of adjustment of account No. 180 or account No. 184.

#### Credit:

(a) On the books of the "initiating" company, with that portion of uncollected discount, fees, and other charges included in the face amount of such debt securities, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participations in purchases of the debt securities (contra debit will be made to account No. 331).

(b) With that portion of amount collected allocable to discount, fees, and other charges included in the face amount of such debt securities but withheld from disbursements to debtor small business concerns (contra debit will be

made to account No. 180 or account No. 184, as appropriate).

(c) On the books of the "initiating" company, with the "initiating" company's portion of amount collected allocable to such discount, fees, and other charges included in the face amount of such debt securities, but withheld from disbursements to debtor small business concerns, in connection with purchases of debt securities participated in by other investors (contra debit will be made to account No. 180 or account No. 184, as appropriate).

(d) On the books of the "participating" company, with amount collected allocable to that portion of such discount, fees, and other charges included in the face amount of such debt securities, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participations in purchases by other investors of debt securities (contra debit will be made to account No. 180 or account No. 184, as appropriate).

(e) With amount of any adjustment required because of adjustment of account No. 180 or account No. 184.

**NOTE:** Appropriate subsidiary records should be maintained for all uncollected amounts included in this account to permit identification of such amounts with the particular debt securities to which they relate.

(See account No. 384)

### 255 Amounts due from directors, officers, and employees.

This account will represent the unpaid balance of amounts advanced to directors, officers, and employees.

#### Debit:

(a) With amount of such advances made.

#### Credit:

(a) With amount collected on such advances.

(b) With amount transferred to appropriate expense classification upon proper authorization.

(c) With amount written off or disposed of otherwise.

(See account No. 709).

### 256 Organization costs.

This account will represent the amount of legal fees, promotional expense, stock certificate costs, incorporation fees, taxes, and other related costs incurred in organizing the company.

#### Debit:

(a) With amount of such costs incurred.

#### Credit:

(a) At the end of each month, with the monthly amount necessary to amortize the organization costs in accordance with Treasury regulations.

(See account No. 672)

### 257 Other assets.

This account will include the balances in subaccounts Nos. 257.1, 257.2, etc.

#### 257.1 Other assets—general.

This account will represent the amount of assets of the company not specifically

provided for in other accounts, including recoverable amounts advanced for the protection and preservation of the company's investments (such as the payment of taxes on mortgaged property), but not including short-term loans or debt securities issued to protect the company's interests in previously issued long-term loans or equity securities.

**Debit:**

(a) With amount of the company's investment in such assets.

**Credit:**

(a) With amount of such assets sold or disposed of otherwise.

(See account No. 709)

**257.2 Other assets—notes receivable maturing after one year.**

This account will represent the unpaid balance of miscellaneous notes receivable maturing after one year. Notes representing amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities will be reflected in account No. 210.

**Debit:**

(a) With amount of such miscellaneous notes received.

**Credit:**

(a) With amount collected on principal of such miscellaneous notes.

(b) With unpaid principal balance written off or disposed of otherwise.

(See accounts Nos. 140 and 390)

**LIABILITY AND VALUATION RESERVE ACCOUNTS**

**300 Notes payable to SBA—direct loans.**

This account will represent the unpaid principal balance of notes payable for funds borrowed and received directly from the Small Business Administration.

**Debit:**

(a) With amount of principal payments made on such notes.

**Credit:**

(a) With amount of funds borrowed.

**301 Notes payable to SBA—guaranteed loans purchased by SBA.**

This account will represent the unpaid principal balance of notes payable for funds borrowed from others through guaranteed loans which subsequently have been purchased by the Small Business Administration.

**Debit:**

(a) With amount of principal payments made on such notes.

**Credit:**

(a) With unpaid principal balance of guaranteed loans purchased by SBA (contra debit will be made to account No. 315).

**302 Debentures payable, subordinated, issued to SBA.**

This account will represent the unpaid principal balance of funds received by the company under its subordinated debenture bonds payable issued to the Small Business Administration for funds borrowed pursuant to Section 302(a) of the Small Business Investment Act of 1958, as amended.

**Debit:**

(a) With amount of principal payments made on such debentures.

**Credit:**

(a) With amount of funds received under such debentures.

**NOTE:** The subordinated debentures purchased by the Small Business Administration under Section 302(a) of the Small Business Investment Act of 1958, as amended, shall be deemed a part of the capital and surplus of the company for purposes of Sections 302(a), 303(b) and 306 of the Act.

**310 Loans sold with recourse.**

This account will represent the unpaid balance of net funds advanced on loans outstanding to small business concerns which have been sold to individuals, banks, insurance companies, or other financial institutions with recourse upon the company in the event of default.

**Debit:**

(a) With amount collected on net funds advanced on such loans as reported to the company by the purchaser.

(b) With unpaid balance of net funds advanced on such loans repurchased.

**Credit:**

(a) With unpaid balance of net funds advanced on such loans sold.

**NOTE:** This account is contra to account No. 170—Loans (Section 305). For balance sheet purposes account No. 310 will be deducted from account No. 170.

**312 Debt securities, convertible, and with stock purchase warrants or options sold with recourse.**

This account will represent the unpaid balance of net funds advanced on unmatured debt securities, convertible, and with stock purchase warrants or options, issued by small business concerns to the company, which are sold to individuals, banks, insurance companies, or other financial institutions with recourse upon the company in the event of default.

**Debit:**

(a) With unpaid balance of net funds advanced on such debt securities, convertible, and with stock purchase warrants or options paid on maturity as reported to the company by the purchaser.

(b) With unpaid balance of net funds advanced on such debt securities, convertible, and with stock purchase warrants or options repurchased.

**Credit:**

(a) With unpaid balance of net funds advanced on debt securities, convertible, and with stock purchase warrants or options sold with recourse.

**NOTE:** This account is contra to account No. 180—Debt securities, convertible, and with stock purchase warrants or options (Section 304). For balance sheet purposes account No. 312 will be deducted from account No. 180.

**314 Debt securities divested of stock rights sold with recourse.**

This account will represent the unpaid balance of net funds advanced on small business concerns' unmatured debt securities divested of stock rights which are sold to individuals, banks, insurance companies, or other financial institutions with recourse upon the company in the event of default.

**Debit:**

(a) With unpaid balance of net funds advanced on such debt securities divested of stock rights paid on maturity as reported to the company by the purchaser.

(b) With unpaid balance of net funds advanced on such debt securities divested of stock rights repurchased.

**Credit:**

(a) With unpaid balance of net funds advanced on such debt securities divested of stock rights sold with recourse.

**NOTE:** This account is contra to account No. 184—Debt securities divested of stock rights (Section 304). For balance sheet purposes account No. 314 will be deducted from account No. 184.

**315 Notes payable to other than SBA—guaranteed by SBA.**

This account will represent the unpaid principal balance of notes payable for funds borrowed from other than the Small Business Administration and guaranteed by the Small Business Administration.

**Debit:**

(a) With amount of principal payments made on such notes.

(b) With unpaid principal balance of guaranteed loans purchased by SBA (contra credit will be made to account No. 301).

**Credit:**

(a) With amount of funds borrowed.

**316 Notes payable to other than SBA—not guaranteed by SBA.**

This account will represent the unpaid principal balance of notes payable for funds borrowed from other than the Small Business Administration and not guaranteed by the Small Business Administration.

**Debit:**

(a) With amount of principal payments made on such notes.

**Credit:**

(a) With amount of funds borrowed.

**317 Debentures payable, unsubordinated.**

This account will represent the par value of the company's unsubordinated debenture bonds payable which are issued for funds borrowed.

**Debit:**

(a) With the par value of such debentures retired upon maturity.

(b) With the par value of such debentures purchased and retired by the company before maturity.

**Credit:**

(a) With the par value of such debentures issued for funds borrowed.

**318 Debentures payable, subordinated, issued to other than SBA.**

This account will represent the par value of the company's subordinated debenture bonds payable which are issued to other than the Small Business Administration for funds borrowed.

**Debit:**

(a) With the par value of such debentures retired upon maturity.

(b) With the par value of such debentures purchased and retired by the company before maturity.

**Credit:**

(a) With the par value of such debentures issued to other than the Small Business Administration for funds borrowed.

**319 Mortgages payable.**

This account will include the balances in subaccounts Nos. 319.1 and 319.2.

**319.1 Mortgages payable for funds borrowed.**

This account will represent the unpaid principal balance of mortgages payable for funds borrowed on corporate premises or other real estate owned by the company. Purchase money mortgages, conditional sales contracts, or similar documentary evidence of indebtedness given by the company in the acquisition of real property will be included in this account.

**Debit:**

(a) With amount of principal payments made on such indebtedness.

**Credit:**

(a) With amount of funds borrowed.

**319.2 Mortgages payable on assets acquired in liquidation of loans and debt securities.**

This account will represent the unpaid principal balance of existing mortgages payable on assets acquired by the company in liquidation of loans and debt securities. The balance of this account will not be treated as a liability on the balance sheet but as an offset to the asset account.

**Debit:**

(a) With amount of principal payments made on such indebtedness.

**Credit:**

(a) With amount of such indebtedness.

**320 Notes payable—other.**

This account will represent the unpaid principal balance of notes payable in evidence of amounts owed by the company other than for funds borrowed. Notes payable, conditional sales contracts, and liens for the acquisition of furniture, fixtures, equipment, and automobiles will be included in this account.

**Debit:**

(a) With amount of principal payments made on such notes.

**Credit:**

(a) With amount of unpaid principal of such notes executed.

**330 Participations of other lenders in loans.**

This account will be used only by the "initiating" company and will represent the outstanding balance of participations by other lenders in net funds advanced on loans (Section 305).

The total unpaid balances of net funds advanced on loans in which other lenders participate will be carried in account No. 170 by the "initiating" company for accounting convenience. The balance of this account will not be treated as a liability on the balance sheet but as an offset to the asset account.

**Debit:**

(a) With amount of uncollected discount, fees, and other charges included in the face amount of loans, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participation in the loans (contra credit will be made to account No. 253).

(b) With amount of repayments transmitted by the "initiating" company to the "participating" company in reduction of such participations.

**Credit:**

(a) With amount of participations of other lenders in loans (including assigned portion of unearned discount, fees, and other charges on loans transferred from account No. 382).

(b) With the "participating" company's portion of amount collected allocable to discount, fees, and other charges included in the face amount of loans, but withheld from disbursements to debtor small business concerns, in connection with loans participated in by other lenders (contra debit will be made to account No. 170).

**NOTE 1:** A participation is defined as an undivided interest shared with one or more other lenders or investors in a note, debenture bond, certificate of stock, or other instrument evidencing a loan to, or equity financing of, a small business concern.

**NOTE 2:** Appropriate subsidiary records should be maintained for all loan participations of other lenders reflected in this account as indicated in Note 2 of account No. 170.

(See account No. 530)

**331 Participations of other investors in debt securities.**

This account will be used only by the "initiating" company and will represent the outstanding balance of participations by other investors, incorporated or unincorporated, in net funds advanced on debt securities (Section 304).

The total unpaid balances of net funds advanced on debt securities, convertible, and with stock purchase warrants or options, and debt securities divested of stock rights, in which other investors participate, will be carried by the "initiating" company in accounts Nos. 180 and 184, respectively, for accounting convenience. The balance of this account will not be treated as a liability on the balance sheet but as an offset to the related asset accounts.

**Debit:**

(a) With amount of uncollected discount, fees, and other charges included in the face amount of debt securities, but withheld from disbursements to debtor small business concerns which is assigned to the "participating" company in connection with its participation in purchases of the debt securities (contra credit will be made to account No. 254).

(b) With amount of repayments transmitted by the "initiating" company to the "participating" company in reduction of such participations.

**Credit:**

(a) With amount of participations of other investors in debt securities (including assigned portion of unearned discount, fees, and other charges on debt securities transferred from account No. 384).

(b) With the "participating" company's portion of amount collected allocable to discount, fees, and other charges included in the face amount of debt securities, but withheld from disbursements to debtor small business concerns, in connection with purchases of debt securities participated in by other investors (contra debit will be made to account No. 180 or account No. 184, as appropriate).

**NOTE 1:** A participation is defined as an undivided interest shared with one or more other lenders or investors in a note, debenture bond, certificate of stock, or other instrument evidencing a loan to, or equity financing of, a small business concern.

**NOTE 2:** Appropriate subsidiary records should be maintained for all participations of other investors in debt securities as indicated in Note 2 of accounts Nos. 180 and 184.

(See account No. 530)

**332 Participations of other investors in capital stock of SBCs.**

This account will be used only by the "initiating" company and will represent the outstanding balance of participations by other investors, incorporated or unincorporated, in capital stock of SBCs.

The total value at cost of small business concerns' capital stock in which other investors participate will be carried by the "initiating" company in accounts Nos. 190, 194, and 198, respectively, for accounting convenience. The balance of this account will not be treated as a liability on the balance sheet but as an offset to the related asset accounts.

**Debit:**

(a) With amount of reductions of such participations.

**Credit:**

(a) With amount of participations of other investors in capital stock of SBCs.

**NOTE 1:** A participation is defined as an undivided interest shared with one or more other lenders or investors in a note, debenture bond, certificate of stock, or other instrument evidencing a loan to, or equity financing of, a small business concern.

**NOTE 2:** Appropriate subsidiary records should be maintained for all participations of other investors in capital stock of SBCs as indicated in Note 2 of accounts Nos. 190, 194, and 198.

(See account No. 530)

**333 Participations of other investors in warrants, options, and other stock rights acquired from SBCs.**

This account will be used by the "initiating" company and will represent the outstanding balance of participations by other investors, incorporated or unincorporated, in warrants, options, and other stock rights acquired from SBCs.

The total cost of such warrants, options, and other stock rights in which other investors participate will be carried by the "initiating" company in account No. 199 for accounting convenience. The balance of this account will not be treated as a liability on the balance sheet but as an offset to the related asset account.

**Debit:**

(a) With amount of reductions of such participations.

**Credit:**

(a) With amount of participations of other investors in warrants, options, and other stock rights acquired from SBCs.

**NOTE 1:** A participation is defined as an undivided interest shared with one or more lenders or investors in a note, debenture bond, certificate of stock, or other instrument.

strument evidencing a loan to, or equity financing of, a small business concern.

Note 2: Appropriate subsidiary records should be maintained for all participations of other investors in warrants, options, and other stock rights acquired from SBCs as indicated in Note 2 of account No. 199.

(See account No. 530)

### 334 Participations in assets acquired in liquidation of loans and debt securities.

This account will be used only by the "initiating" company and will represent the outstanding balance of participations by other lenders or investors in assets acquired in liquidation of loans (Section 305) and debt securities (Section 304). The total amount of such assets will be carried in account No. 200 by the "initiating" company for accounting convenience. The balance of this account will not be treated as a liability on the balance sheet but as an offset to the asset account.

Debit:

(a) With amount of reductions of such participations.

Credit:

(a) With amount of participations of other lenders or investors in assets acquired in liquidation of loans and debt securities.

Note: Appropriate subsidiary records should be maintained for all participations of other lenders or investors in assets acquired in liquidation of loans and debt securities reflected in this account as indicated in Note 3 of account No. 200.

(See account No. 530)

### 335 Participations in amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities.

This account will be used only by the "initiating" company and will represent the outstanding balance of participations by other lenders or investors in amounts due from debtors on sale of assets acquired in liquidation of loans (Section 305) and debt securities (Section 304). The total unpaid balance of such amounts due will be carried in account No. 210 by the "initiating" company for accounting convenience. The balance of this account will not be treated as a liability on the balance sheet but as an offset to the asset account.

Debit:

(a) With amount of reductions of such participations.

Credit:

(a) With amount of participations of other lenders or investors in amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities.

Note: Appropriate subsidiary records should be maintained for all participations of other lenders or investors in amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities reflected in this account as indicated in Note 2 of account No. 210.

(See account No. 530)

### 340 Accounts payable for compensation on participations purchased.

This account, on the books of the "participating" company, will represent

the amount of accrued compensation payable for services rendered to it on its participations in loans, debt securities, assets acquired in liquidation of loans (Section 305) and debt securities (Section 304), and amounts due from debtors on sale of assets acquired in liquidation of loans (Section 305) and debt securities (Section 304) of the "initiating" company.

Debit:

(a) With amount of such accrued compensation paid or disposed of otherwise.

Credit:

(a) With amount of such accrued compensation.

(See account No. 630)

### 342 Accounts payable for commitment fees on deferred participations.

This account, on the books of the "initiating" company, will represent the amount of accrued commitment fees payable for having funds made available on a deferred basis by "participating" companies such as banks, small business investment companies, and other lenders in connection with the financing of, or commitments to finance, small business concerns.

Debit:

(a) With amount of such accrued fees paid.

Credit:

(a) With amount of such accrued fees.

Note: A deferred participation is defined as a commitment under a participation agreement whereby the "participating" company will make funds available on a deferred basis to the "initiating" company in connection with the latter's financing of, or commitment to finance, a small business concern, or in connection with an "initiating" small business investment company's acquisition of loans or equity securities from other such companies.

(See account No. 600)

### 344 Accounts payable—other.

This account will represent amounts payable on open account for which other specific accounts have not been provided.

Debit:

(a) With amount of such indebtedness paid, or disposed of otherwise.

Credit:

(a) With amount of such indebtedness incurred.

### 350 Accrued interest payable.

This account will represent the amount of liability for interest accrued on the company's notes, mortgages and debentures payable, and on loans (Section 305) and debt securities (Section 304) of small business concerns sold with recourse upon the company in the event of default. The account also will include accrued interest payable on other interest-bearing obligations of the company except accrued interest payable provided for in account No. 352.

Debit:

(a) With amount of such interest paid or disposed of otherwise.

Credit:

(a) At the end of each month, with amount of interest accrued on all interest-bearing obligations covered by this account on that date.

(b) With amount of interest accrued during the month on such obligations paid in full or disposed of otherwise during the month.

### 352 Accrued interest payable on participations of other lenders or investors in loans, debt securities, and amounts due from debtors.

This account will be used only by the "initiating" company and will represent the accrued interest receivable due "participating" companies, such as other small business investment companies, banks, etc., on their participations in loans, debt securities, and amounts due from debtors on sale of assets acquired in liquidation of loans (Section 305) and debt securities (Section 304).

The total accrued unpaid interest receivable on loans, debt securities, and amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities in which other lenders or investors participate will be carried in account No. 160 by the "initiating" company for accounting convenience. The balance of this account will not be treated as a liability on the balance sheet but will be deducted from the related asset account to produce a net figure for balance sheet purposes.

Debit:

(a) With amount of such interest paid or disposed of otherwise.

Credit:

(a) With amount due "participating" companies representing their portion of accrued interest receivable on participations in loans, debt securities, and amounts due from debtors.

### 354 Estimated Federal income taxes accrued.

This account will represent the balance of estimated Federal income taxes accrued which have not been remitted to the Internal Revenue Service.

Debit:

(a) With amount of such taxes paid.

Credit:

(a) With amount of such taxes accrued during the month.

(See accounts Nos. 720 and 722)

### 356 Estimated State income taxes accrued.

This account will represent the balance of estimated State income taxes accrued which have not been remitted to the appropriate collector of such taxes.

Debit:

(a) With amount of such taxes paid.

Credit:

(a) With amount of such taxes accrued during the month.

(See accounts Nos. 725 and 727)

### 358 Other accrued expenses.

This account will represent the amount of the company's liability as of the end of the month for accrued expenses, such as salaries, the company's portion of social security taxes, and other accrued expenses not provided for in other accounts.

Debit:

(a) With amount of such expenses paid or disposed of otherwise.

**Credit:**

(a) With amount of such expenses accrued during the month.

NOTE: Increases or decreases in the liability for accrued expenses, through accruals or adjustments, will be offset by increases or decreases, respectively, in the appropriate expense accounts.

**360-362 Dividends payable on**  
(Type and class)  
**capital stock.**

These accounts will represent the company's liability for dividends, other than stock dividends, declared by the company's Board of Directors on the respective types and classes of capital stock issued and outstanding. A separate account should be used to reflect the dividends payable for each type and class of capital stock outstanding.

**Debit:**

(a) With amount of such dividends paid.

**Credit:**

(a) With amount of such dividends declared payable by the company's Board of Directors.

**365-367 Stock dividends payable on**  
(Type and class)  
**capital stock.**

These accounts will represent the amounts of capital stock dividends declared payable by the company's Board of Directors on the respective types and classes of capital stock issued and outstanding. A separate account should be used to reflect the stock dividends payable with respect to each type and class of capital stock outstanding.

**Debit:**

(a) With amount of such stock dividends issued (contra credit will be made to accounts Nos. 405-409).

**Credit:**

(a) With amount of such stock dividends declared payable by the company's Board of Directors (contra debit will be made to account No. 420, No. 425, or No. 426, as appropriate).

NOTE: A stock dividend payable is not considered a liability, since the use of assets is not required. In instances when a statement of financial condition is prepared between the dates of declaration and payment, the stock dividend payable should be reflected in the capital stock and surplus section as an addition to the capital stock.

**370 Federal taxes withheld.**

This account will represent the amount of Federal income and social security taxes withheld from employees' salaries which have not been remitted to the Internal Revenue Service.

**Debit:**

(a) With amount of such taxes remitted to Internal Revenue Service.

**Credit:**

(a) With amount of such taxes withheld.

**372 State and city taxes withheld.**

This account will represent the amount of State income and city taxes withheld from employees' salaries which have not been remitted to the appropriate collector of such taxes.

**Debit:**

(a) With amount of such taxes remitted.

**Credit:**

(a) With amount of such taxes withheld.

**374 Unapplied receipts.**

This account will represent the amount of funds received by the company which have not been applied to loans (Section 305), debt securities (Section 304), interest receivable, etc. This account will be used only in instances when the funds received cannot be applied promptly.

**Debit:**

(a) With amount of such funds applied or disposed of otherwise.

**Credit:**

(a) With amount of funds received which cannot be applied promptly.

**376 Advance interest payments.**

This account will represent the amount of interest collected through cash payments by debtors on interest-bearing items prior to the interest maturity date.

**Debit:**

(a) On the interest maturity date with amount of such interest heretofore credited to this account as an advance payment.

**Credit:**

(a) With amount of interest received prior to the interest maturity date.

**378 Miscellaneous trust receipts.**

This account will represent the liability of the company for funds withheld or received in trust, for which no specific account is provided, including earnest money deposits, and funds withheld from employees' salaries for the purchase of United States Savings Bonds, payment of group life insurance premiums, payment of pension fund contributions, etc.

**Debit:**

(a) With amount of such funds disbursed or disposed of otherwise.

**Credit:**

(a) With amount of such funds withheld or received.

**380 Unamortized premium on debentures payable.**

This account will represent the amount of the unamortized balance of premium on unmatured outstanding debentures payable sold by the company for a sum in excess of par.

**Debit:**

(a) At the end of each month, with the monthly amount necessary to amortize the premium over the life of such debentures.

(b) With the unamortized portion of premium applicable to such debentures purchased and retired prior to maturity.

(c) When such debentures mature during the month, with the amount of premium applicable to the portion of the month the debentures were outstanding.

**Credit:**

(a) With the amount of premium on such debentures at the time of sale.

(See accounts Nos. 550, 560, and 690)

**382 Unearned discount, fees, and other charges on loans (Section 305).**

This account will represent the amount of unearned discount, fees, and other charges included in the face amount of loans made to small business concerns pursuant to Section 305 of the

Small Business Investment Act of 1958, as amended, and which is withheld from disbursements to such small business concerns.

**Debit:**

(a) On the books of the "initiating" company, with that portion of unearned discount, fees, and other charges included in the face amount of loans, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participation in the loans (contra credit will be made to account No. 330).

(b) With amount of unearned discount, fees, and other charges included in the face amount of direct loans, but withheld from disbursements to debtor small business concerns, which becomes earned through collection, passage of time, or sale of loans.

(c) On the books of the "initiating" company, with amount earned of that portion of unearned discount, fees, and other charges included in the face amount of loans, but withheld from disbursements to debtor small business concerns, which is retained by the "initiating" company in connection with loans participated in by other lenders (the amount to be recorded becomes earned through collection, passage of time, or sale of loans).

(d) On the books of the "participating" company, with amount earned of that portion of unearned discount, fees, and other charges included in the face amount of loans, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participations in loans of other lenders (the amount to be recorded becomes earned through collection, passage of time, or sale of loans).

(e) With amount of unearned discount, fees, and other charges included in the face amount of loans, but withheld from disbursements to debtor small business concerns, which is rebated to borrowers upon early repayment of loans, or is closed into the asset account upon liquidation of loans at less than full amount.

**Credit:**

(a) With amount of unearned discount, fees, and other charges included in the face amount of direct loans but withheld from disbursements to debtor small business concerns.

(b) On the books of the "initiating" company, with total amount of unearned discount, fees, and other charges included in the face amount of loans, but withheld from disbursements to debtor small business concerns, in connection with loans participated in by other lenders.

(c) On the books of the "participating" company, with that portion of unearned discount, fees, and other charges included in the face amount of loans, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participations in loans of other lenders.

NOTE 1: A participation is defined as an undivided interest shared with one or more

other lenders or investors in a note, debenture bond, certificate of stock, or other instrument evidencing a loan to, or equity financing of, a small business concern.

**NOTE 2:** Unearned discount in this account will be transferred to account No. 512—Interest on loans, as it becomes earned, and unearned fees and other charges will be transferred to account No. 536—Miscellaneous fees, under similar circumstances.

**NOTE 3:** Any fees and other charges considered earned immediately upon closing of loans will be recorded in the appropriate income accounts at once without first being entered in this account.

**NOTE 4:** Appropriate subsidiary records should be maintained for all unearned amounts included in this account to permit identification of such amounts with the particular loans to which they relate.

(See account No. 253)

### 384 Unearned discount, fees, and other charges on debt securities (Section 304).

This account will represent the amount of unearned discount, fees, and other charges included in the face amount of small business concerns' debt securities acquired pursuant to Section 304 of the Small Business Investment Act of 1958, as amended, and which is withheld from disbursements to such small business concerns.

#### Debit:

(a) On the books of the "initiating" company, with that portion of unearned discount, fees, and other charges included in the face amount of debt securities, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participation in purchases of the debt securities (contra credit will be made to account No. 331).

(b) With amount of unearned discount, fees, and other charges included in the face amount of debt securities, but withheld from disbursements to debtor small business concerns, which becomes earned through collection, passage of time, or sale of debt securities.

(c) On the books of the "initiating" company, with amount earned of that portion of unearned discount, fees, and other charges included in the face amount of debt securities, but withheld from disbursements to debtor small business concerns, which is retained by the "initiating" company in connection with purchases of debt securities participated in by other investors (the amount to be recorded becomes earned through collection, passage of time, or sale of debt securities).

(d) On the books of the "participating" company, with amount earned of that portion of unearned discount, fees, and other charges included in the face amount of debt securities, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participations in purchases by other investors of debt securities (the amount to be recorded becomes earned through collection, passage of time, or sale of debt securities).

(e) With amount of unearned discount, fees, and other charges included in the face amount of debt securities, but

withheld from disbursements to debtor small business concerns, which is rebated to borrowers upon early repayment of debt securities, or is closed into the asset account upon liquidation of debt securities at less than full amount.

#### Credit:

(a) With amount of unearned discount (including that equivalent to the determined cost of warrants, options, and other stock rights, as explained in Note 3 of account No. 199), fees, and other charges included in the face amount of debt securities acquired but withheld from disbursements to debtor small business concerns.

(b) On the books of the "initiating" company, with total amount of unearned discount, fees, and other charges included in the face amount of debt securities, but withheld from disbursements to debtor small business concerns, in connection with purchases of debt securities participated in by other investors.

(c) On the books of the "participating" company, with that portion of unearned discount, fees, and other charges included in the face amount of debt securities, but withheld from disbursements to debtor small business concerns, which is assigned to the "participating" company in connection with its participations in purchases by other investors of debt securities.

**NOTE 1:** A participation is defined as an undivided interest shared with one or more other lenders or investors in a note, debenture bond, certificate of stock, or other instrument evidencing a loan to, or equity financing of, a small business concern.

**NOTE 2:** Unearned discount in this account will be transferred to account No. 518—Interest on debt securities, as it becomes earned, and unearned fees and other charges will be transferred to account No. 536—Miscellaneous fees, under similar circumstances.

**NOTE 3:** Any fees and other charges considered earned immediately upon closing of financing through purchase of debt securities will be recorded in the appropriate income accounts at once without first being entered in this account.

**NOTE 4:** Appropriate subsidiary records should be maintained for all unearned amounts included in this account to permit identification of such amounts with the particular debt securities to which they relate.

(See account No. 254)

### 386 Other liabilities.

This account will include the balances in subaccounts Nos. 386.1, 386.2, 386.3, etc.

#### 386.1 Other liabilities—general.

This account will represent the amount of liabilities of the company not specifically provided for in other accounts.

#### Debit:

(a) With amount of such liabilities paid or disposed of otherwise.

#### Credit:

(a) With amount of such liabilities incurred.

**NOTE:** Accrual of interest receivable should be discontinued with respect to any loan or debt security financing a small business concern which is in bankruptcy, or on the verge thereof, or otherwise considered to be insolvent. Any interest payments received from such a debtor should not be treated as interest income, but should be either credited as payments on principal of the debt or credited as deferred income in this account, pending determination of the appropriate

accounting. In less serious situations, when interest receivable is accrued under circumstances in which the financed small business concern has not earned the amount thereof, or the fair value of the loan or debt security as determined in good faith by the Board of Directors is less than cost, or recovery thereon is doubtful, an addition to the allowance for uncollectible interest receivable should be made in an amount equivalent to the accrual of interest receivable, or, as an alternative, the interest income should be deferred in this account as above indicated.

#### 386.2 Other liabilities—unrealized gain on sale of assets.

This account will represent the amount of unrealized gain on sale of assets.

#### Debit:

(a) With amount of gain realized through collection or passage of time.

#### Credit:

(a) With amount of unrealized gain on sale of assets.

**NOTE:** Unrealized gain in this account will be transferred to the appropriate gain accounts as it is realized.

#### 386.3 Other liabilities—discount on capital stock of SBCs.

This account will represent the contingent liability in connection with the acquisition of small business concerns' capital stock below par value. Items in this account will not be amortized but will remain on the books until disposition is made of the related capital stock. The balance of this account will not be treated as a liability on the balance sheet but will be deducted from the related asset account to produce a net figure for balance sheet purposes.

#### Debit:

(a) Upon disposition of such capital stock of SBCs, with amount of discount carried therefor in this account.

#### Credit:

(a) With amount of discount received on acquisition of such capital stock of SBCs representing the difference between the par value and the amount paid for the stock.

**NOTE:** This is an optional account to be used only if the company prefers to enter the contingent liability in its books and not amortize the discount to operating income.

#### 390 Allowance for uncollectible notes and accounts receivable.

This account will represent the valuation reserve provided for estimated losses on notes and accounts receivable and should be maintained in an amount not less than a conservative estimate of probable losses on notes and accounts receivable. The valuation reserve will be adjusted upward as conditions make advisable, and may be adjusted downward if circumstances justify or occasion demands, in order to reflect the true value of the company's notes and accounts receivable.

#### Debit:

(a) With amount of decreases in such reserve.

(b) With amount of notes and accounts receivable written off.

#### Credit:

(a) With amount of such reserve established.

(b) With amount of increases in such reserve.

(c) With amount of recoveries on notes and accounts receivable written off.  
(See account No. 666)

### 391 Allowance for uncollectible interest receivable.

This account will represent the valuation reserve provided for estimated losses of accrued interest receivable, and should be maintained in an amount not less than a conservative estimate of probable losses. This valuation reserve should be adjusted as occasion demands, so that this account will reflect the best available estimate of probable losses of accrued interest receivable.

#### Debit:

(a) With amount of decreases in such reserve.

(b) With amount of accrued interest receivable written off.

#### Credit:

(a) With amount of such reserve established.

(b) With amount of increases in such reserve.

(c) With amount of recoveries of accrued interest receivable written off.

NOTE 1: In instances when a loan to, or debt security of, a small business concern or an amount due from debtors on sale of assets acquired in liquidation of loans and debt securities is participated in by other lenders or investors, the valuation reserve on the books of the "initiating" company should not exceed the total accrued interest receivable less the amount of such interest due other lenders or investors on their participations as reflected in account No. 352.

NOTE 2: When interest receivable is accrued under circumstances in which the financed small business concern has not earned the amount thereof, or the fair value of the loan or debt security as determined in good faith by the Board of Directors is less than cost, or recovery thereon is doubtful, an addition to the allowance for uncollectible interest receivable reflected in this account should be made in an amount equivalent to the accrual of interest receivable, or, as an alternative, the interest income should be deferred in account No. 386.1—Other liabilities—general, pending determination of the appropriate accounting.

(See accounts Nos. 160 and 667)

### 392 Allowance for uncollectible loans (Section 305).

This account will represent the valuation reserve provided for estimated losses on loans (Section 305) and should be maintained in an amount not less than a conservative estimate of probable losses. This valuation reserve will be adjusted upward as conditions make advisable, and may be adjusted downward if circumstances justify or occasion demands, in order to reflect the true value of the company's loans to small business concerns.

#### Debit:

(a) With amount of decreases in such reserve.

(b) With amount of such loans written off.

#### Credit:

(a) With amount of such reserve established.

(b) With amount of increases in such reserve.

(c) With amount of recoveries on such loans written off.

(See account No. 668)

### 393 Allowance for losses on debt securities (Section 304).

This account will represent the valuation reserve provided for estimated losses on debt securities, convertible, and with stock purchase warrants or options, and debt securities divested of stock rights (all such securities Section 304) and should be maintained in an amount not less than a conservative estimate of probable losses. This valuation reserve will be adjusted as occasion demands, so that this account will reflect the best available estimate of probable losses on debt securities of small business concerns.

#### Debit:

(a) With amount of decreases in such reserve.

(b) With amount of reserve established in this account for debt securities which are written off, sold, or disposed of otherwise (contra credit for any portion representing an excess over losses actually incurred will be made to account No. 673).

(c) With amount of write-down of such debt securities, not to exceed the amount of reserve established therefor in this account.

#### Credit:

(a) With amount of such reserve established.

(b) With amount of increases in such reserve.

NOTE: When debt securities of small business concerns are sold by the company or disposed of otherwise, cash or other appropriate asset account will be debited for the amount received, this account will be debited for the amount of the reserve which has been established therein for such debt securities, and the appropriate investment account will be credited for the related cost value carried therein. If there is no loss, or it is less than the amount reserved for loss on the debt securities disposed of, the excess portion of the amount reserved will be credited to account No. 673. If a gain over cost is realized, such gain will be credited to account No. 572. If a loss in relation to cost is sustained which is in excess of the amount reserved therefor, that portion above the amount of the reserve provided will be debited to account No. 702.

### 394 Allowance for losses on capital stock of SBCs and on stock rights acquired from SBCs.

This account will include the balances in subaccounts Nos. 394.1 and 394.2.

#### 394.1 Allowance for losses on capital stock of SBCs.

This account will represent the valuation reserve provided for estimated losses on convertible capital stock of SBCs, capital stock of SBCs with stock purchase warrants or options, and capital stock of SBCs—other, and should be maintained in an amount not less than a conservative estimate of probable losses. This valuation reserve will be adjusted as occasion demands, so that this account will reflect the best available estimate of probable losses on capital stock of SBCs.

#### Debit:

(a) With amount of decreases in such reserve.

(b) With amount of reserve established in this account for capital stock which is written off, sold, or disposed of otherwise (contra credit for any portion representing an excess over losses actually incurred will be made to account No. 674).

(c) With amount of write-down of such capital stock, not to exceed the amount of reserve established therefor in this account.

#### Credit:

(a) With amount of such reserve established.

(b) With amount of increases in such reserve.

NOTE: When capital stock of SBCs is sold by the company or disposed of otherwise, cash or other appropriate asset account will be debited for the amount received, this account will be debited for the amount of the reserve established therein for such capital stock, and the appropriate investment account will be credited for the related cost value carried therein. If there is no loss, or it is less than the amount reserved for loss on capital stock of SBCs disposed of, the excess portion of the amount reserved will be credited to account No. 674. If a gain over cost is realized, such gain will be credited to account No. 576. If a loss in relation to cost is sustained which is in excess of the amount reserved therefor, that portion above the amount of the reserve provided will be debited to account No. 706.

(See accounts Nos. 190, 194, and 198)

#### 394.2 Allowance for losses on warrants, options, and other stock rights acquired from SBCs.

This account will represent the valuation reserve provided for estimated losses on warrants, options, and other stock rights acquired from SBCs, and should be maintained in an amount not less than a conservative estimate of probable losses. This valuation reserve will be adjusted as occasion demands, so that this account will reflect the best available estimate of probable losses on warrants, options, and other stock rights acquired from SBCs.

#### Debit:

(a) With amount of decreases in such reserve.

(b) With amount of reserve established in this account for warrants, options, and other stock rights acquired from SBCs which are written off, sold, or disposed of otherwise (contra credit for any portion representing an excess over losses actually incurred will be made to account No. 676).

(c) With amount of write-down of such warrants, options, and other stock rights acquired from SBCs, not to exceed the amount of reserve established therefor in this account.

#### Credit:

(a) With amount of such reserve established.

(b) With amount of increases in such reserve.

NOTE: When warrants, options, and other stock rights acquired from SBCs are sold by the company or disposed of otherwise, cash

or other appropriate asset account will be debited for the amount received, this account will be debited for the amount of the reserve established therein for such warrants, options, and other stock rights acquired from SBCs, and the appropriate investment account will be credited for the related cost value carried therein. If there is no loss, or if it is less than the amount reserved for loss on the stock rights disposed of, the excess portion of the amount reserved will be credited to account No. 676. If a gain over cost is realized, such gain will be credited to account No. 577. If a loss in relation to cost is sustained which is in excess of the amount reserved therefor, that portion above the amount of the reserve provided will be debited to account No. 707.

(See account No. 199)

### 395 Allowance for losses on assets acquired in liquidation of loans and debt securities.

This account will represent the valuation reserve provided for estimated losses on assets acquired in liquidation of loans (Section 305) and debt securities (Section 304), and should be maintained in an amount not less than a conservative estimate of probable losses. This valuation reserve will be adjusted as occasion demands, so that this account will reflect the best available estimate of probable losses on assets acquired in liquidation of loans and debt securities.

Debit:

(a) With amount of decreases in such reserve.

(b) With amount of reserve established in this account for assets acquired in liquidation of loans and debt securities which are written off, sold, or disposed of otherwise (contra credit for any portion representing an excess over losses actually incurred will be made to account No. 675).

(c) With amount of write-down of such assets acquired in liquidation of loans and debt securities, not to exceed the amount of reserve established therefor in this account.

Credit:

(a) With amount of such reserve established.

(b) With amount of increases in such reserve.

**NOTE:** When assets acquired in liquidation of loans and debt securities are sold by the company or disposed of otherwise, cash or other appropriate asset account will be debited for the amount received, this account will be debited for the amount of the reserve established therein for such assets acquired in liquidation of loans and debt securities, and account No. 200 will be credited for the related cost value carried therein. If there is no loss, or it is less than the amount reserved for loss on the acquired assets disposed of, the excess portion of the amount reserved will be credited to account No. 675. If a gain over recorded investment in the assets acquired in liquidation is realized, such gain will be credited to account No. 578. If a loss in relation to recorded investment value is sustained which is in excess of the amount reserved therefor, that portion above the amount of the reserve provided will be debited to account No. 708.

(See account No. 200)

### 396 Allowance for uncollectible amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities.

This account will represent the valuation reserve provided for estimated losses of amounts due from debtors on sale of assets acquired in liquidation of loans (Section 305) and debt securities (Section 304), and should be maintained in an amount not less than a conservative estimate of probable losses. This valuation reserve will be adjusted upward as conditions make advisable, and may be adjusted downward if circumstances justify or occasion demands, in order to reflect the true value of such amounts due from debtors on the company's books.

Debit:

(a) With amount of decreases in such reserve.

(b) With amount due from debtors on sale of assets acquired in liquidation of loans and debt securities written off.

Credit:

(a) With amount of such reserve established.

(b) With amount of increases in such reserve.

(c) With amount of recoveries on such items written off.

(See accounts Nos. 210 and 669)

### 397 Accumulated depreciation on furniture and equipment.

This account will represent the valuation reserve provided for depreciation of furniture, fixtures, and equipment including automobiles owned by the company. This account should be maintained in an amount not less than a conservative estimate of the expired service life of such assets while owned by the company.

Debit:

(a) With amount of depreciation accumulated, when such an asset is sold or disposed of otherwise.

Credit:

(a) At the end of each month, with the monthly amount necessary to depreciate the cost of such assets over the estimated service life.

(See accounts Nos. 230 and 656)

### 398 Accumulated depreciation on corporate premises owned—building.

This account will represent the valuation reserve provided for depreciation of the building and other depreciable improvements of corporate premises owned and used as the company's office quarters. This account should be maintained in an amount not less than a conservative estimate of the expired service life of such building and improvements while owned by the company.

Debit:

(a) With amount of depreciation accumulated, when such an asset is sold or disposed of otherwise.

Credit:

(a) At the end of each month, with the monthly amount necessary to depreciate the cost of such assets over the estimated service life.

(See accounts Nos. 241 and 655)

### 399 Accumulated depreciation on assets acquired in liquidation of loans and debt securities.

This account will represent the valuation reserve provided for depreciation of depreciable property acquired by foreclosure, or otherwise, in liquidation of loans (Section 305) and debt securities (Section 304). This account should be maintained in an amount not less than a conservative estimate of the expired service life of such property while owned by the company.

Debit:

(a) With amount of depreciation accumulated, when such an asset is sold or disposed of otherwise.

Credit:

(a) At the end of each month, with the monthly amount necessary to depreciate the cost of such assets over the estimated service life.

(See accounts Nos. 200 and 710)

## CAPITAL STOCK AND SURPLUS ACCOUNTS

### 400-404 ----- capital stock (Type and class) authorized.

These accounts will represent the total par or stated value of the capital stock authorized, as provided for in the company's charter. A separate account should be provided for each type and class of capital stock authorized.

Debit:

(a) With amount of reductions of such capital stock authorized.

Credit:

(a) With original amount of such capital stock authorized.

(b) With additional amounts of such capital stock authorized.

(See accounts Nos. 405-409)

### 405-409 ----- unissued capital (Type and class) stock.

These accounts will represent the total par or stated value of unissued capital stock of the company. A separate account should be provided for each type and class of unissued capital stock.

Debit:

(a) With original amount of such unissued capital stock, as provided for in the company's charter.

(b) With additional amounts of such unissued capital stock authorized.

(c) With par or stated value of capital stock retired.

Credit:

(a) With amount of such capital stock issued (contra debit will be made to accounts Nos. 410-412).

(b) With amount of reductions of capital stock authorized.

(See accounts Nos. 400-404)

### 410-412 ----- capital stock (Type and class) subscribed.

These accounts will represent the total amount at the subscription price of the company's capital stock subscribed. A separate account should be provided for each type and class of capital stock sub-

scribed. These accounts will reflect the company's responsibility to issue shares of its stock to subscribers who have made final payment of their capital stock subscriptions.

**Debit:**

(a) With amount at the subscription price of such subscribed capital stock issued (contra credits will be made to accounts Nos. 405-409 and, as appropriate, No. 420).

(b) With amount at the subscription price of such subscribed capital stock cancelled or disposed of otherwise.

**Credit:**

(a) With amount at the subscription price of such capital stock subscribed.

(See accounts Nos. 250-252)

**415-419 Treasury stock—**  
(Type and class)

These accounts will represent the total amount of the company's issued capital stock which has been reacquired through purchase or donation and has not been retired. A separate account should be provided for each type and class of such capital stock held by the company.

**Debit:**

(a) With cost of such capital stock acquired through purchase.

(b) With amount of fair market value or par value of such capital stock acquired through donation (contra credit will be made to account No. 420).

**Credit:**

(a) With cost of such capital stock acquired through purchase, when sold or disposed of otherwise.

(b) With amount of fair market value or par value of such capital stock acquired through donation, when sold or disposed of otherwise.

**Note:** Appropriate subsidiary records should be maintained as deemed necessary.

**420 Paid-in surplus.**

This account will represent the amount of surplus arising from (1) sales initially of the company's capital stock at a price in excess of par value (including amounts transferred from capital stock subscribed at a price above par, when shares are issued); (2) donations to the company of its issued capital stock carried as treasury stock at fair market value or par value; (3) retirements of capital stock purchased at less than the par value thereof; (4) sales of treasury stock in excess of its carrying value on the books of the company; (5) donations or gifts to the company of assets carried at not in excess of fair market value; (6) other capital equity transactions with stockholders.

**Debit:**

(a) With amount of loss on treasury stock sold which was acquired through purchase, but not to exceed the total of credits residing in this account relating to previous gains on treasury stock sold or retirement of capital stock at amounts less than the amounts previously paid in with respect thereto (any amount of loss in excess of the total of such credits will be charged to retained earnings, accounts Nos. 425 and 426 as appropriate).

(b) With amount received by the company below fair market value, or par

value, whichever applicable, for treasury stock sold which was acquired through donation.

(c) With amount paid by the company in excess of par value, but not to exceed the premium received initially, for shares of capital stock retired (any amount paid in excess of par plus initial premium received will be charged to retained earnings, accounts Nos. 425 and 426 as appropriate).

(d) With amount of stock dividends, at a per share value not less than the average paid-in capital per share existing at the time that the dividend is declared (par or stated value of capital stock issued plus paid-in surplus divided by the number of shares of capital stock issued), which are declared payable out of paid-in surplus by the company's Board of Directors.

**Credit:**

(a) With amount paid in (including stock dividends from retained earnings), or transferred from capital stock subscribed, representing the excess (after deduction of underwriters' fees and commissions) over par value of the company's capital stock, when shares are issued.

(b) With amount of fair market value or par value of the company's capital stock acquired through donation.

(c) With amount of discount below-par value of the company's capital stock acquired through purchase, when such stock is retired.

(d) With amount received by the company in excess of cost, or in excess of fair market value or par value, whichever applicable, for treasury stock sold.

(e) With amount not to exceed fair market value of donations or gifts of assets to the company.

**425 Retained earnings from net income.**

This account will represent the accumulated balance of the company's undistributed net income since incorporation.

**Debit:**

(a) At the end of the fiscal year, with any debit balance reflected in the profit and loss summary account.

(b) With amount of dividends, other than stock dividends, declared payable out of retained earnings from net income by the company's Board of Directors.

(c) With amount of stock dividends, at a per share value not less than the average paid-in capital per share existing at the time that the dividend is declared (par or stated value of capital stock issued plus paid-in surplus divided by the number of shares of capital stock issued), which are declared payable out of retained earnings from net income by the company's Board of Directors.

(d) With appropriate amount of loss on treasury stock sold which was acquired through purchase, representing the excess of such loss over the total of credits residing in paid-in surplus, account No. 420, relating to previous gains on treasury stock sold or retirement of capital stock at amounts less than the amounts previously paid in with respect thereto.

(e) With appropriate amount paid by the company in excess of par plus initial premium received on the type and class of shares of capital stock retired.

(f) With amounts transferred to appropriated retained earnings upon approval by the Board of Directors.

**Credit:**

(a) At the end of the fiscal year, with the credit balance of the profit and loss summary account.

(b) With amounts returned from appropriated retained earnings.

(See account No. 427)

**426 Retained earnings from net realized gain on investments.**

This account will represent the accumulated balance of the company's undistributed net realized gain on investments since incorporation.

**Debit:**

(a) At the end of the fiscal year, with any debit balance reflected in the realized gain and loss summary account.

(b) With amount of dividends, other than stock dividends, declared payable out of retained earnings from net realized gain on investments by the company's Board of Directors.

(c) With amount of stock dividends, at a per share value not less than the average paid-in capital per share existing at the time that the dividend is declared (par or stated value of capital stock issued plus paid-in surplus divided by the number of shares of capital stock issued), which are declared payable out of retained earnings from net realized gain on investments by the company's Board of Directors.

(d) With appropriate amount of loss on treasury stock sold which was acquired through purchase, representing the excess of such loss over the total of credits residing in paid-in surplus, account No. 420, relating to previous gains on treasury stock sold or retirement of capital stock at amounts less than the amounts previously paid in with respect thereto.

(e) With appropriate amount paid by the company in excess of par plus initial premium received on the type and class of shares of capital stock retired.

(f) With amounts transferred to appropriated retained earnings upon approval by the Board of Directors.

**Credit:**

(a) At the end of the fiscal year, with the credit balance of the realized gain and loss summary account.

(b) With amount returned from appropriated retained earnings.

(See account No. 427)

**427 Appropriated retained earnings.**

This account will represent the amount of retained earnings restricted from dividend distribution and thus earmarked for some future purpose, such as the retirement of debentures payable, the acquisition of treasury stock, etc.

**Debit:**

(a) With amounts returned to the appropriated retained earnings account after purpose has been served.

**Credit:**

(a) With amounts transferred from retained earnings upon approval by the Board of Directors.

(See accounts Nos. 425 and 426)

**429 Profit and loss summary.**

This account will be used as a clearing account through which all income and expense accounts on the books of the company will be closed.

**Debit:**

(a) At the end of the fiscal year, with the debit balances of all expense and income accounts.

(b) At the end of the fiscal year, with the credit balance of the account (transfer to retained earnings from net income).

**Credit:**

(a) At the end of the fiscal year, with the credit balances of all income and expense accounts.

(b) At the end of the fiscal year, with the debit balance of the account (transfer to retained earnings from net income).

(See account No. 425)

**430 Realized gain and loss summary.**

This account will be used as a clearing account through which all accounts for realized gains and losses on investments on the books of the company will be closed.

**Debit:**

(a) At the end of the fiscal year, with the balances of all accounts for losses on investments.

(b) At the end of the fiscal year, with the credit balance of the account (transfer to retained earnings from net realized gain on investments).

**Credit:**

(a) At the end of the fiscal year, with the balances of all accounts for gains on investments.

(b) At the end of the fiscal year, with the debit balance of the account (transfer to retained earnings from net realized gain on investments).

(See account No. 426)

**INCOME ACCOUNTS****500 Commitment income.**

This account will represent the amount of income earned during the month on commitments to small business concerns for loans (Section 305) and equity securities (Section 304). This account, on the books of the "participating" company, will include the amount of commitment income during the month on deferred participations.

**Debit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**Credit:**

(a) With amount of income earned during the month on commitments and deferred participations.

**NOTE:** A deferred participation is defined, as a commitment under a participation agreement whereby the "participating" company will make funds available on a deferred basis to the "initiating" company in connection with the latter's financing of, or commitment to finance, a small business

concern, or in connection with an "initiating" small business investment company's acquisition of loans or equity securities from other such companies.

**504 Interest on time deposits.**

This account will represent the amount of interest earned during the month on time deposits in banks which are members of the Federal Deposit Insurance Corporation.

**Debit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**Credit:**

(a) At the end of each month, with amount of interest earned during the month on time deposits existing on that date.

(b) With amount of interest earned during the month on time deposits withdrawn during the month.

**510 Interest on U.S. Government securities.**

This account will represent the amount of interest earned during the month on United States Government obligations, direct and fully guaranteed, owned by the company.

**Debit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**Credit:**

(a) At the end of each month, with amount of interest earned during the month on securities owned on that date.

(b) With amount of interest earned during the month on securities disposed of during the month.

(See accounts Nos. 130 and 160)

**511 Income from insured savings accounts.**

This account will represent the amount of income earned during the month on funds of the company in insured savings accounts in institutions the accounts of which are insured by the Federal Savings and Loan Insurance Corporation.

**Debit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**Credit:**

(a) At the end of each month, with amount of income earned during the month on funds in insured savings accounts on that date.

(b) With income earned during the month on funds withdrawn from insured savings accounts during the month.

**512 Interest on loans.**

This account will represent the amount of interest earned during the month on loans (Section 305) to small business concerns.

**Debit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**Credit:**

(a) At the end of each month, with amount of interest earned during the month on loans outstanding to small business concerns on that date.

(b) With amount of interest earned during the month on loans to small business

concerns paid in full during the month.

**NOTE:** Accrual of interest receivable should be discontinued with respect to any loan to a small business concern which is in bankruptcy, or on the verge thereof, or otherwise considered to be insolvent. Any interest payments received from such a debtor should not be credited to this account as interest income, but should be either credited as payments on principal of the debt or credited as deferred income in account No. 386.1—Other liabilities—general, pending determination of the appropriate accounting. In less serious situations, when interest receivable is accrued under circumstances in which the financed small business concern has not earned the amount thereof, or the fair value of the loan as determined in good faith by the board of directors is less than cost, or recovery thereon is doubtful, an addition to the allowance for uncollectible interest receivable should be made in an amount equivalent to the accrued interest receivable taken into income in this account, or, as an alternative, the interest income should be deferred in account No. 386.1 as above indicated.

(See accounts Nos. 160, 170, and 382)

**514 Interest on funds in escrow pending closing of financing.**

This account will represent the amount of interest earned during the month on funds in escrow pending closing of financing for small business concerns.

**Debit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**Credit:**

(a) At the end of each month, with amount of interest earned during the period on funds in escrow pending closing of such financing on that date.

(b) With amount of interest earned during the month on funds in escrow pending closing, when related financing was closed during the month.

(See accounts Nos. 160 and 179)

**516 Interest on debt securities.**

This account will represent the amount of interest earned during the month on debt securities of small business concerns owned by the company pursuant to Section 304 of the Small Business Investment Act of 1958, as amended.

**Debit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**Credit:**

(a) At the end of each month, with amount of interest earned during the period on such debt securities owned on that date.

(b) With amount of interest earned during the month on such debt securities paid in full or converted to capital stock during the month.

**NOTE:** Accrual of interest receivable should be discontinued with respect to any debt security of a small business concern which is in bankruptcy, or on the verge thereof, or otherwise considered to be insolvent. Any interest payments received from such a debtor should not be credited to this account as interest income, but should be either credited as payments on principal of the debt or credited as deferred income in account No. 386.1—Other liabilities—general, pending determination of the appropriate accounting. In less serious situations, when interest re-

receivable is accrued under circumstances in which the financed small business concern has not earned the amount thereof, or the fair value of the debt security as determined in good faith by the board of directors is less than cost, or recovery thereon is doubtful, an addition to the allowance for uncollectible interest receivable should be made in an amount equivalent to the accrued interest receivable taken into income in this account, or, as an alternative, the interest income should be deferred in account No. 386.1 as above indicated.

(See accounts Nos. 160, 180, 184, and 384)

#### 518 Interest on amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities.

This account will represent the amount of interest earned during the month on amounts due from debtors on sale of assets acquired in liquidation of loans (Section 305) and debt securities (Section 304).

**Debit:**  
(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**Credit:**  
(a) At the end of each month, with amount of interest earned during the period on amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities on that date.

(b) With amount of interest earned during the month on amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities paid in full or converted to capital stock during the month.

**Note:** Accrual of interest receivable on amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities should be discontinued if the debtor is in bankruptcy, or on the verge thereof, or otherwise considered to be insolvent. Any interest payments received from such a debtor or should not be credited to this account as interest income, but should be either credited as payments on principal of the debt or credited as deferred income in account No. 386.1—Other liabilities—general, pending determination of the appropriate accounting. In less serious situations, when interest receivable is accrued under circumstances in which recovery on the principal of the debt is doubtful, an addition to the allowance for uncollectible interest receivable should be made in an amount equivalent to the accrued interest receivable taken into income in this account, or, as an alternative, the interest income should be deferred in account No. 386.1 as above indicated.

(See accounts Nos. 160 and 210)

#### 520 Interest income—other.

This account will represent the amount of interest earned during the month on miscellaneous notes receivable. Interest earned during the month on notes representing amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities will be reflected in account No. 518. This account, however, will include interest earned on interest-bearing receivables not otherwise classified.

**Debit:**  
(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**Credit:**  
(a) At the end of each month, with amount of interest earned during the period on such receivables on that date.

(b) With amount of interest earned during the month on such receivables paid in full during the month.

(See accounts Nos. 140 and 160)

#### 530 Compensation income—participations sold.

This account, on the books of the "initiating" company, will represent the amount of compensation earned during the month for financial services rendered in connection with participations sold.

**Debit:**  
(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**Credit:**  
(a) With amount of such compensation income.

(See account No. 154)

#### 532 Advisory and consulting service fees.

This account will represent the amount of fees charged during the month for advisory, consulting, and related services rendered to small business concerns pursuant to Section 308(b) of the Small Business Investment Act of 1958, as amended.

**Debit:**  
(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**Credit:**  
(a) With amount of such fees charged.

#### 534 Appraisal and investigation fees.

This account will represent the amount of fees charged during the month for appraisal, investigation, and related services rendered to banks or other lenders or investors, pursuant to Section 308(a) of the Small Business Investment Act of 1958, as amended. The account will exclude compensation for financial services rendered in connection with participations sold (see account No. 530).

**Debit:**  
(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**Credit:**  
(a) With amount of such fees charged.

#### 536 Miscellaneous fees.

This account will represent the amount of fees charged during the month for application, appraisal, investigation, and related services rendered to small business concerns.

**Debit:**  
(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**Credit:**  
(a) With amount of such fees charged.

(See accounts Nos. 382 and 384)

#### 540 Dividends on capital stock of SBCs.

This account will represent the amount of income from declared dividends on capital stock of small business concerns.

**Debit:**  
(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**Credit:**  
(a) With amount of income from such dividends.

#### 541 Sharings in income of SBCs.

This account will represent the amount of sharings or participations in the income of small business concerns from which the company has acquired debt securities (Section 304).

**Debit:**  
(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**Credit:**  
(a) With amount of such sharings.

#### 550 Amortization of premium on debentures payable.

This account will represent the amount of amortization of premium on unamortized outstanding debentures payable issued by the company.

**Debit:**  
(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**Credit:**  
(a) At the end of each month, with the monthly amount necessary to amortize the premium over the life of such debentures.

(b) With the unamortized portion of premium applicable to such debentures purchased and retired prior to maturity.  
(c) When such debentures mature during the month, with the amount of premium applicable to the portion of the month the debentures were outstanding.

(See account No. 380)

#### 560 Gain on debentures purchased and retired.

This account will represent the amount of excess of (1) the par value of debentures payable purchased and retired plus unamortized premium and minus unamortized discount in connection with such debentures over (2) the cost of the principal sum of such debentures.

**Debit:**  
(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**Credit:**  
(a) With amount of such gain on debentures payable purchased and retired during the month.

(See accounts Nos. 224, 316, 318, and 380)

#### 570 Gain on U.S. Government securities.

This account will represent the amount of gain on the sale or other disposition of United States Government obligations, direct and fully guaranteed, carried in account No. 130.

**Debit:**  
(a) At the end of the fiscal year, with the balance of account (transfer to realized gain and loss summary).

**Credit:**  
(a) With amount of gain on such securities sold or disposed of otherwise.

**Note:** Increase in value over cost of United States Treasury bills, which are issued at a discount and are noninterest bearing, will not be reflected in this account but will be credited at the end of each month to account No. 510—Interest on U.S. Government securities, with concurrent debit to account No. 160—Accrued interest receivable.

#### 572 Gain on debt securities (Section 304).

This account will represent the amount of gain on the sale or other disposition

of debt securities (Section 304) of small business concerns carried in accounts Nos. 180 and 184.

Debit:

(a) At the end of the fiscal year, with the balance of account (transfer to realized gain and loss summary).

Credit:

(a) With amount of gain on such debt securities sold or disposed of otherwise. (See account No. 386.2)

#### 574 Recoveries on asset losses charged to loss accounts.

This account will represent the amount of recoveries on losses sustained through write-down, or sale or other disposition of assets for which direct charges to loss accounts have been recorded.

Debit:

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary and realized gain and loss summary, as appropriate, on the basis of analysis of this account).

Credit:

(a) With amount collected on such items written off.

(See accounts Nos. 702, 706, 707, 708, and 709)

#### 576 Gain on capital stock of SBCs.

This account will represent the amount of gain on the sale or other disposition of capital stock of small business concerns carried in accounts Nos. 190, 194, and 198.

Debit:

(a) At the end of the fiscal year, with the balance of account (transfer to realized gain and loss summary).

Credit:

(a) With amount of gain on such capital stock sold or disposed of otherwise.

(See account No. 386.2)

#### 577 Gain on warrants, options, and other stock rights acquired from SBCs.

This account will represent the amount of gain on the sale or other disposition of warrants, options, and other stock rights acquired from SBCs.

Debit:

(a) At the end of the fiscal year, with the balance of account (transfer to realized gain and loss summary).

Credit:

(a) With amount of gain on such warrants, options, and other stock rights acquired from SBCs sold or disposed of otherwise.

(See accounts Nos. 199, 386.2, and memorandum record No. NA-10)

#### 578 Gain on assets acquired in liquidation of loans and debt securities.

This account will represent the amount of gain on the sale or other disposition of assets acquired in liquidation of loans (Section 305) and debt securities (Section 304) of small business concerns carried in account No. 200.

Debit:

(a) At the end of the fiscal year, with the balance of account (transfer to realized gain and loss summary).

Credit:

(a) With amount of gain on such assets acquired in liquidation of loans and debt securities sold or disposed of otherwise.

(See account No. 386.2)

#### 579 Gain on other assets.

This account will represent the amount of gain on the sale or other disposition of assets not specifically provided for in other accounts.

Debit:

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

Credit:

(a) With amount of gain on such assets sold or disposed of otherwise.

(See account No. 386.2)

#### 580 Rental income.

This account will represent the income earned during the month from the leasing or renting to others of portions of corporate premises owned.

Debit:

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

Credit:

(a) With amount of income earned during the month.

#### 582 Income from assets acquired in liquidation of loans and debt securities.

This account will represent the amount of income earned during the month on assets acquired in liquidation of loans (Section 305) and debt securities (Section 304), including the operation of properties, carried in account No. 200.

Debit:

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

Credit:

(a) With amount of such income earned during the month.

NOTE: In instances when a liquidating agent is employed to supervise the disposition of the assets, appropriate subsidiary accounts should be maintained by the agent. Cash collected from the sale of assets by the liquidating agent should be remitted immediately to the company. The company should maintain a local depository bank account, in which all receipts of the agent are deposited when direct remittances to the company are not feasible. Deposit balances in this account should be subject to withdrawal by check only by the company and should be reflected on the company's records in the same manner as other bank accounts. Any advances to a liquidating agent for expenses incident to the operation of or in the disposition of assets acquired in the liquidation of loans and debt securities should be charged to account No. 220—Prepaid expenses.

Any advances to a liquidating agent for expenses incident to the operation of or in the disposition of assets acquired in the liquidation of loans and debt securities should be charged to account No. 220—Prepaid expenses.

#### 584 Other income.

This account will represent the income earned during the month not specifically provided for in other accounts.

Debit:

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

Credit:

(a) With amount of such income earned during the month.

### EXPENSE ACCOUNTS

#### 600 Commitment expense.

This account will represent the amount of commitment expense during the month on commitments from the Small Business Administration and on commitments from lending institutions other than the Small Business Administration.

On the books of the "initiating" company, this account also will include the amount of commitment expense during the month on deferred participations.

Debit:

(a) With amount of expense incurred during the month on commitments and deferred participations.

Credit:

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

NOTE: A deferred participation is defined as a commitment under a participation agreement whereby the "participating" company will make funds available on a deferred basis to the "initiating" company in connection with the latter's financing of, or commitment to finance, a small business concern, or in connection with an "initiating" small business investment company's acquisition of loans or equity securities of other such companies.

(See account No. 342)

#### 610 Interest on notes payable to SBA.

This account will represent the amount of interest expense accrued during the month on notes payable for funds borrowed from the Small Business Administration.

Debit:

(a) With amount of such interest accrued during the month.

Credit:

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

(See accounts Nos. 300, 301, and 350)

#### 614 Interest on debentures payable, issued to SBA.

This account will represent the amount of interest expense accrued during the month on subordinated debentures payable, issued to the Small Business Administration.

Debit:

(a) With amount of such interest accrued during the month.

Credit:

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

(See accounts Nos. 302 and 350)

#### 618 Interest on loans sold with recourse.

This account will represent the amount of interest expense accrued during the month on loans to small business concerns sold to individuals, banks, insurance companies, or other financial institutions with recourse upon company in the event of default.

**Debit:**

(a) With amount of such interest accrued during the month.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

(See accounts Nos. 170 and 350)

**620 Interest on debt securities sold with recourse.**

This account will represent the amount of interest expense accrued during the month of debt securities of small business concerns sold to individuals, banks, insurance companies, or other financial institutions with recourse upon the company in the event of default.

**Debit:**

(a) With amount of such interest accrued during the month.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

(See accounts Nos. 180, 184, and 350)

**622 Interest on notes payable to other than SBA.**

This account will represent the amount of interest expense accrued during the month on notes payable for funds borrowed from other than the Small Business Administration.

**Debit:**

(a) With amount of such interest accrued during the month.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

(See accounts Nos. 315 and 350)

**624 Interest on debentures payable, issued to other than SBA.**

This account will represent the amount of interest expense accrued during the month on subordinated and unsubordinated debentures payable, issued to other than the Small Business Administration.

**Debit:**

(a) With amount of such interest accrued during the month.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

(See accounts Nos. 316, 318, and 350)

**626 Interest on mortgages payable for funds borrowed.**

This account will represent the amount of interest expense accrued during the month on mortgages payable for funds borrowed by the company, carried in account No. 319.1.

**Debit:**

(a) With amount of such interest accrued during the month.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

(See account No. 350)

**628 Interest expense—other.**

This account will represent the amount of interest expense accrued during the

month on obligations of the company not specifically provided for in other accounts.

**Debit:**

(a) With amount of such interest accrued during the month.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

(See account No. 350)

**630 Compensation expense—participations purchased.**

This account, on the books of the "participating" company, will represent the amount of compensation expense during the month for financial services received from "initiating" companies in connection with participations purchased.

**Debit:**

(a) With amount of such compensation expense.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

(See account No. 340)

**640 Debenture and fiscal agent expense.**

This account will represent the amount of (1) charges by the company's fiscal agent for services rendered, including reimbursements of expenses incurred by the fiscal agent on behalf of the company, and (2) expenses directly incident to the sale, redemption, and servicing of debentures payable, including such items as commissions, advertising in financial journals, communications, printing, stationery and supplies, and such other expenses as may be properly charged to the sale, redemption, and servicing of debentures.

**Debit:**

(a) With amount of such expenses incurred during the month.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**642 Transfer agent and registrar expense.**

This account will represent the amount of charges to the company by the transfer agent and the registrar for services rendered in connection with the issuance and transfer of the company's capital stock.

**Debit:**

(a) With amount of such expenses incurred during the month.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**650-679 Operating expenses.**

The accounts under this caption will represent the amounts of operating expenses incurred.

**Debit appropriate account:**

(a) With amount of operating expenses incurred during the month.

**Credit appropriate account:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**650 Advertising and promotional costs.**

This account will represent the cost of advertising and promoting the company's services, including the cost of entertaining prospective borrowers and clients.

**651 Appraisal, consulting, and engineering costs.**

This account will represent the amount of charges made by outside firms and individuals for appraisal, consulting, and engineering services rendered to the company.

**652 Auditing and examination costs.**

This account will represent the amount of charges for auditing, examination, and bookkeeping services rendered by accountants not on the company's payroll, and charges for services rendered by SBA examiners.

**653 Communications.**

This account will represent telephone, telegraph, and postage expense.

**654 Cost of space occupied.**

This account will represent the cost of space occupied such as rent, alterations, amortization of leasehold improvements, light, heat, power, janitor service, etc., but not including maintenance and repairs, and depreciation.

**655 Depreciation of corporate premises owned—building.**

This account will represent the amount of provision applicable to the fiscal year for depreciation of the building and other depreciable improvements of corporate premises owned and used as the company's office quarters.

**656 Depreciation of furniture and equipment.**

This account will represent the amount of provision applicable to the fiscal year for depreciation of furniture, fixtures, and equipment, including automobiles, owned by the company.

**657 Directors' and stockholders' meetings costs.**

This account will represent directors' fees, and travel expense for attendance at directors' and stockholders' meetings. This account also will include the cost of holding stockholders' meetings, such as rental of the meeting hall and related expenses.

**658 Insurance.**

This account will represent fire, theft, employee group life insurance, and other insurance expense, including fidelity bond premiums and insurance on automobiles. With respect to employee group life insurance coverage, only that portion of the premiums paid by the company will be charged to this account. The portion, if any, of employee group life insurance premiums withheld from salaries or received from employees will be reflected in account No. 378. (Insurance premiums to be amortized will be charged to account No. 220)

**659 Investigation and financial service costs.**

This account will represent the amount of charges made by outside firms and

individuals for investigation and financial services rendered to the company. Such services may be required in connection with applications for loans and applications for financing small business concerns through acquisition of their debt securities.

#### 660 Investment adviser and supervisory costs.

This account will represent the amount of charges made by outside firms and individuals for furnishing advice to the company with respect to the desirability of investing in, purchasing, or selling loans, debt securities, and capital stock of small business concerns and other property, or for determining, if so empowered, what securities or other property shall be purchased or sold by the company.

#### 661 Legal services.

This account will represent the cost of legal services rendered to the company.

#### 662 Miscellaneous services and supplies.

This account will represent the amount of charges made to the company for custodial or safekeeping services in connection with its portfolio securities, bank service charges, exchange on checks, protest fees, and other miscellaneous service charges, and the cost of office supplies such as stationery, accounting, forms, blank books, pencils, binders, etc.

#### 663 Salaries.

This account will include the balances in subaccounts Nos. 663.1 and 663.2.

##### 663.1 Salaries of officers.

This account will represent the salary cost of all officers of the company, including directors' salaries, if any, but not directors' fees for attendance at meetings.

##### 663.2 Salaries of employees.

This account will represent the salary cost of all employees other than officers, including salaries of any temporary or part-time employees engaged for specific assignments.

#### 664 Taxes, excluding Federal and State income taxes.

This account will represent the cost of all taxes, including those on corporate premises owned, motor vehicle, personal property, social security (company's portion) and other taxes charged to the company, exclusive of Federal and State income taxes.

#### 665 Travel.

This account will represent all travel expense, including transportation charges, automobile maintenance and operating expense, meals, lodging, telephone, telegraph, and other company costs incurred by officers and employees while in a travel status.

#### 666 Uncollectible notes and accounts.

This account will represent the amount of estimated uncollectible notes and accounts receivable applicable to the fiscal year.

#### 667 Uncollectible interest receivable.

This account will represent the amount of estimated uncollectible interest receivable applicable to the fiscal year.

#### 668 Uncollectible loans (Section 305).

This account will represent the amount of estimated uncollectible loans (Section 305) to small business concerns applicable to the fiscal year.

#### 669 Uncollectible amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities.

This account will represent the sum of estimated uncollectible amounts due from debtors on sale of assets acquired in liquidation of loans (Section 305) and debt securities (Section 304) applicable to the fiscal year.

NOTE: Appropriate subsidiary accounts should be maintained as deemed necessary.

#### 670 Maintenance and repairs.

This account will represent all maintenance and repairs expense on buildings, furniture, and equipment (other than automobiles) owned by the company.

#### 671 Retirement benefits expense.

This account will represent the cost assumed by the company in contributing to a pension fund providing for employee retirement benefits. The portion, if any, of the cost of retirement benefits withheld from salaries or received from employees will be reflected in account No. 378.

#### 672 Organization expense.

This account will represent the amount of legal fees, promotional expense, stock certificate costs, incorporation fees, taxes, and other related costs incurred in organizing the company, which are charged to expense (this account) as incurred or are transferred to this account periodically through the amortization of organization costs established as an asset in account No. 256.

#### 673 Estimated losses on debt securities (Section 304).

This account will represent the amount of estimated losses applicable to the fiscal year on debt securities (Section 304) of small business concerns.

#### 674 Estimated losses on capital stock of SBCs.

This account will represent the amount of estimated losses applicable to the fiscal year on capital stock of small business concerns.

#### 675 Estimated losses on assets acquired in liquidation of loans and debt securities.

This account will represent the amount of estimated losses applicable to the fiscal year on assets acquired in liquidation of loans and debt securities.

#### 676 Estimated losses on warrants, options, and other stock rights acquired from SBCs.

This account will represent the amount of estimated losses applicable to the fis-

cal year on warrants, options, and other stock rights acquired from SBCs.

#### 679 Miscellaneous operating expenses.

This account will represent the amount of operating expenses not specifically provided for in other accounts.

#### 680 Amortization of discount on debentures payable.

This account will represent the amount of amortization of discount on unmatured outstanding debentures payable issued by the company.

##### Debit:

(a) At the end of each month, with the monthly amount necessary to amortize the discount over the life of such debentures.

(b) With the unamortized portion of discount applicable to such debentures purchased and retired prior to maturity.

(c) When such debentures mature during the month, with the amount of discount applicable to the portion of the month the debentures were outstanding.

##### Credit:

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

(See account No. 224)

#### 690 Loss on debentures purchased and retired.

This account will represent the amount of excess of (1) the cost of the principal sum of debentures payable purchased and retired over (2) the par value of such debentures plus unamortized premium and minus unamortized discount in connection with such debentures.

##### Debit:

(a) With amount of such loss on debentures payable purchased and retired during the month.

##### Credit:

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

(See accounts Nos. 224, 316, 318, and 380)

#### 700 Loss on U.S. Government securities.

This account will represent the amount of loss on the sale or other disposition of United States Government obligations, direct and fully guaranteed, carried in account No. 130.

##### Debit:

(a) With amount of loss on such securities sold or disposed of otherwise.

##### Credit:

(a) At the end of the fiscal year, with the balance of account (transfer to realized gain and loss summary).

#### 702 Loss on debt securities (Section 304).

This account will represent the amount of loss in excess of that provided for in account No. 393 on the write-down or sale or other disposition of debt securities (Section 304) of small business concerns carried in accounts Nos. 180 and 184.

##### Debit:

(a) With amount of loss in excess of that provided for in account No. 393 on

such debt securities written down or sold or disposed of otherwise.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to realized gain and loss summary).

(See account No. 574)

**706 Loss on capital stock of SBCs.**

This account will represent the amount of loss in excess of that provided for in account No. 394.1 on the write-down or sale or other disposition of capital stock of small business concerns carried in accounts Nos. 190, 194, and 198.

**Debit:**

(a) With amount of loss in excess of that provided for in account No. 394.1 on such capital stock written down or sold or disposed of otherwise.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to realized gain and loss summary).

(See account No. 574)

**707 Loss on warrants, options, and other stock rights acquired from SBCs.**

This account will represent the amount of loss in excess of that provided for in account No. 394.2 on the write-down or sale or other disposition of warrants, options, and other stock rights acquired from SBCs.

**Debit:**

(a) With amount of loss in excess of that provided for in account No. 394.2 on such warrants, options, and other stock rights written down or sold or disposed of otherwise.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to realized gain and loss summary).

(See account No. 199 and memorandum record No. NA-10)

**708 Loss on assets acquired in liquidation of loans and debt securities.**

This account will represent the amount of loss in excess of that provided for in account No. 395 on the write-down or sale or other disposition of assets acquired in liquidation of loans (Section 305) and debt securities (Section 304) of small business concerns carried in account No. 200.

**Debit:**

(a) With amount of loss in excess of that provided for in account No. 395 on such assets written down or sold or disposed of otherwise.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to realized gain and loss summary).

(See account No. 574)

**709 Loss on other assets.**

This account will represent the amount of loss on the sale or other disposition of assets not specifically provided for in other accounts.

**Debit:**

(a) With amount of loss on such assets sold or disposed of otherwise.

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**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

(See account No. 574)

**710 Expense on assets acquired in liquidation of loans and debt securities.**

This account will represent the amount of expense incurred during the month on assets acquired in liquidation of loans (Section 305) and debt securities (Section 304), including the operation and depreciation of properties, carried in account No. 200. The account also will include the amount of interest expense accrued during the month on mortgages payable on assets acquired in liquidation of loans and debt securities.

**Debit:**

(a) With amount of such expense incurred during the month.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**NOTE:** In instances when a liquidating agent is employed to supervise the disposition of the assets, appropriate subsidiary accounts should be maintained by the agent.

Cash collected from the sale of assets by the liquidating agent should be remitted immediately to the company. The company should maintain a local depository bank account, in which all receipts of the agent are deposited when direct remittances to the company are not feasible. Deposit balances in this account should be subject to withdrawal by check only by the company and should be reflected on the company's records in the same manner as other bank accounts.

Any advances to a liquidating agent for expenses incident to the operation of or in the disposition of assets acquired in the liquidation of loans and debt securities should be charged to account No. 220—Prepaid expenses.

**715 Other expenses.**

This account will represent the amount of nonoperating expenses not specifically provided for in other accounts.

**Debit:**

(a) With amount of such expenses incurred during the month.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

**720 Federal income taxes—net income.**

This account will represent the amount of Federal income taxes applicable to net income for the current fiscal year.

**Debit:**

(a) With amount of such taxes accrued during the month.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

(See account No. 354)

**722 Federal income taxes—net realized gain on investments.**

This account will represent the amount of Federal income taxes applicable to net realized gain on investments for the current fiscal year.

**Debit:**

(a) With amount of such taxes accrued during the month.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to realized gain and loss summary).

(See account No. 354)

**725 State income taxes—net income.**

This account will represent the amount of State income taxes applicable to net income for the current fiscal year.

**Debit:**

(a) With amount of such taxes accrued during the month.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to profit and loss summary).

(See account No. 356)

**727 State income taxes—net realized gain on investments.**

This account will represent the amount of State income taxes applicable to net realized gain on investments for the current fiscal year.

**Debit:**

(a) With amount of such taxes accrued during the month.

**Credit:**

(a) At the end of the fiscal year, with the balance of account (transfer to realized gain and loss summary).

(See account No. 356)

**MEMORANDUM RECORDS**

**Contingent Assets**

**CA-1 Documentary items in process of collection.**

This record will show the amount of trade acceptances, bills of sale, sight drafts, and other similar documents received by the company. It is intended that items entered in this record will not of themselves be considered collateral, but will represent instruments used in effecting collection of the proceeds of the sale of collateral which has been released on trust receipts or similar collateral documents. When collection is effected, appropriate entry will be made in this record.

**CA-2 Other contingent assets.**

This record will show the amount of miscellaneous contingent assets, such as postdated checks, etc.

**Contingent Liabilities**

**CL-6 Commitments outstanding.**

This record will show the amount of financing commitments made and outstanding to small business concerns, including commitments for loans and for the acquisition of small business concerns' capital stock and debt securities. This record also will show the amount of deferred participations. A deferred participation is defined as a commitment under a participation agreement whereby the "participating" company will make funds available on a deferred basis to the "initiating" company in connection with

the latter's financing of, or commitment to finance, a small business concern, or in connection with an "initiating" small business investment company's acquisition of loans or equity securities from other such companies. When funds are advanced against commitments, appropriate entry will be made in this record.

#### CL-7 Other contingent liabilities.

This record will show the amount of miscellaneous contingent obligations not otherwise classified.

### Nominal Assets

#### NA-10 Stock purchase warrants or options on stock of SBCs.

This record will show the company's ownership of detachable stock purchase warrants or options on stock of SBCs, retained after the accompanying financing instruments have been disposed of, for which no consideration was given distinct from that surrendered for such financing instruments and for which no separate cost has otherwise been determined.

Each such detachable stock purchase warrant or option certificate should be entered in this record, upon detachment, at a nominal value of one dollar (\$1). Upon sale of such a detached stock purchase warrant or option, upon exercise or expiration of rights conveyed by such a detached stock purchase warrant or option, or upon the determination of a cost to be recorded for such a detached stock purchase warrant or option, the entry establishing such certificate in the memorandum records is to be discharged through an equivalent credit.

##### Debit:

(a) With nominal value of such detachable stock purchase warrants or options upon their detachment from capital stock certificates or debt securities.

##### Credit:

(a) With nominal value of such detached stock purchase warrants or op-

tions upon exercise or expiration of rights conveyed by such warrant or option certificates.

(b) With nominal value of such detached stock purchase warrants or options sold or disposed of otherwise.

(c) With nominal value of such detached stock purchase warrants or options for which a separate cost has been established.

(See accounts Nos. 180, 194, and 199)

### Nominal Liabilities

#### NL-16.

#### Options on Company's Stock

##### OCS-1 Options on company's stock.

This record will show details of outstanding options on the company's capital stock granted in lieu of salary or in payment for services actually rendered to the company. The following data will be included:

1. Identification of person or entity holding options.
2. Number of shares optioned.
3. Type and class of stock called for by options.
4. Dates of grant and of expiration of options.
5. Price or prices at which options exercisable, with dates they apply.
6. Fair market value, per share, of stock called for at date each option was granted.
7. Price of each option as percent of fair market value of optioned stock at date option was granted.
8. Provisions for termination of options in case of death or retirement of optionees, or other circumstances.
9. Details of authorization, shares reserved for, issuance, exercise, lapse, and forfeiture of options provided for under the company's stock option plan.

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